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ALTERNATIVE SERVICE DELIVERY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

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ALTERNATIVE SERVICE DELIVERY

TUESDAY, JULY 28, 1981

U.S. Senate,
Subcommittee on Intergovernmental Relations,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met at 2:20 p.m., in room 3302, Dirksen Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

Review panel: Robert Carleson, Special Assistant to the President, Office of Policy Development, The White House; Charles M. Gray, professor of economics, College of St. Thomas, St. Paul, Minn.; and Charles L. Schultze, senior fellow, The Brookings Institution.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator Durenberger. The event which brings us together this afternoon has been advertised as a forum on "Alternative Service Delivery." As you will see over the next 3 days, drawing a boundary around the phrase "alternative service delivery" is a difficult task. Thankfully we have a distinguished group of guests to help us do that work.

A forum is an alternative to the traditional Senate hearing. Since January, when I inherited the chair of the Intergovernmental Relations Subcommittee, we have held 12 days of hearings. They have been useful in a way that Senate hearings can be useful. But I have always felt that the time might be more productively invested with more discussion under less formal rules. All members of the subcommittee have been invited to attend this forum, and some of them may. In order to guarantee a lively interchange I have also invited some surrogate Senators—distinguished panelists to review the testimony of the witnesses. The rules shall be very informal. Questions and comments are invited at any time.

Before turning to our honored guests, I will take a stab at defining the subject for this forum. During the next 3 days our witnesses will describe many programs that deliver public services. The one thing that we will not be able to say in describing any of these programs is that the services are produced and provided by a public bureaucracy with a virtual monopoly over the service in its area.

"Alternative" suggests that the service may not be produced by a government agency at all. Rather, the service may be the product of a nonprofit organization or a profitmaking corporation. "Alternative" may also suggest that the producers—whoever they be—are in competition with other providers of the same service in the same service area. Finally, "alternatives" will often mean that the service consumer has some choice in selecting the service and the dollar amount of his or her resources to commit to it, the amount of the service consumed and a choice of providers.

Why should we be interested in alternatives to the services provided by public bureaucracies? Because it is one answer to some very fundamental questions that are being asked about government today. The growing demand for alternatives is responsive to at least four goals that are important in designing any public service program.

First is the desire for public accountability. The system that has been built up over the last 20 years has funds for services coming from Washington, decisions on providers made by State and local governments, and producers drawn from a mix of public, private, and third sector organizations. This system is sufficiently confusing so that the American public no longer knows who should be held responsible. We at the Federal level have tried to save accountability by building in citizen participation mechanisms that are most often costly, ineffective, and unworkable. Alternatives allow the citizen simpler mechanisms to voice their concerns. They can choose one service provider over another. Accountability comes from people who vote with their feet.

A second goal is efficiency—the plain old dictionary definition of "efficiency" that measures how much service can be provided for each dollar of funds. Here alternative service delivery looks to mechanisms like the marketplace which disciplines most of the producers who provide us with goods and services. When alternatives exist, the inefficient producer is put out of business. Cutting dollars from the Federal budget is not capable of improving this form of efficiency. Budget cuts may reduce both the cost and size of the government apparatus, but only alternatives permit the citizen to continue to enjoy the service.

The third goal is often also labeled efficiency. It is referred to here in its more complicated meaning—the one used in economic textbooks. Public service bureaucracies which are monopoly providers have no yardstick by which to measure the level or amount of service that should be provided. They cannot guarantee a socially efficient allocation of services across society. What is more they cannot tailor the kind of services provided and the amounts provided to the individual tastes of each American. It is possible for a bureaucracy to examine the income of an American and determine how many dollars worth of food stamps they are eligible to receive. However, the bureaucracy cannot know whether that citizen would consider himself better off with a little less nutrition and a little more education.

Traditionally we seek the goals I have described through the political process. In a simpler society of relatively equal citizens who place little demand on and have little expectation of government, these kinds of goals can, perhaps, be largely achieved through democratic mechanisms. But in the middle of the 20th century with a governmental system that allocates one-third of our resources, it seems foolish to pretend that our representative democracy can even approach a level of satisfaction on these goals. It is particularly foolish to maintain such a view, if there is another way to organize the provision of public services which might do the job better.

The mechanisms available to increase accountability, cut costs, improve economic efficiency and provide for diversity in the design of public services are many. They include deregulation, decentralization, contracting out, users fees, and vouchers. These mechanisms can all be encouraged through actions by the public sector. In addition, our society has a multitude of organizations—employers—who can enable their employees to make better choices in the consumption of public services. I am the sponsor of two bills—one to promote competition in health care and the other to support ridesharing—which rely on the employer as the primary enabler of consumer choice. The creative application of these mechanisms to specific services in communities all across the Nation number in the thousands. We hope, in the course of the next 3 days, to get an appreciation for the amount of innovation going on and to explore, in detail, some of the most exciting specific examples.

To close my opening comments, I want to point to one further characteristic that most of these alternatives share. They return responsibility for the service in large part back to the citizen either as a consumer or as a provider. In some measure we deserve to lose control of the public service bureaucracy. Rather than do it ourselves we have turned the job over to government. Government has either ignored or dulled our capacity to choose and to provide. Alternative service delivery is a promise that we can return the responsibility for our welfare back to people—not just to governments closer to the people, or to other providers who are more efficient, but to the people themselves.

The capacity to provide is not limited to our tax dollars. In fact, long before the government became a major allocator of wealth, these services were being provided by people as employers, as volunteers, as contributors and simply as responsible members of the community. Nor is the capacity to choose limited to the government professional. In fact, such a limitation is a virtual guarantee that some other allocation would be preferred.

I hope through these few comments that I have captured the subject of this forum. It is a subject of longstanding interest for me. This forum has been designed so I can convert others to the cause. If we get no farther than stirring some interest in official circles in the next few days, we will have come a long way.

As many of you already know, this particular kind of forum is designed to maximize our opportunities for a thorough discussion of the concepts and alternatives to public service delivery. Each of the 3 days of this forum will include people who have a special interest and concern. Our panels will include public officials, corporate representatives, and scholars. The panel members today are—starting on my left—Dr. Charles Schultze, former chairman of the Council of Economic Advisers, a lecturer at Harvard, and now with the Brookings Institution. Next is Bob Carleson, Special Assistant to the President on Policy Development; and then Dr. Charles Gray, professor of economics at the College of St. Thomas in St. Paul. Steve Savas, Assistant Secretary of Policy Development at HUD, was going to be with us. If we get the tax bill done tonight, we will start on the HUD appropriations bill tomorrow. Steve is tied up doing the administration's work there. I thank all of you panel members for being surrogate Senators today.

I will now introduce the panel of witnesses. I am going to introduce three of you first. First is Ted Kolderie, behind the sign that says Mr. Kolderie. This Minnesotan, who is wrestling along with me—or really dragged me into—the public service options project in Minnesota, is a former director of the Minnesota Citizens League. Ted was a key figure in the development of the Citizens League "Issues of the 80's Report," which I find is being very well read out here. He is now a fellow at the Hubert H. Humphrey Institute.

Steve Waldhorn is director of public policy studies at the Stanford Research Institute (SRI). Steve has had major responsibilities for SRI work over the last 4 years on nonservice approaches to social welfare.

Tony Downs, also an economist from the Brookings Institution, is currently working on a study of the causes of urban decline and other problems in the future of American cities. He is the author of 7 books and over 200 articles on urban economics.

We are going to start with Steve.

TESTIMONY OF STEVEN A. WALDHORN, DIRECTOR OF PUBLIC POLICY STUDIES, STANFORD RESEARCH INSTITUTE INTERNATIONAL, MENLO PARK, CALIF.; ANTHONY DOWNS, SENIOR FELLOW, THE BROOKINGS INSTITUTION; AND TED KOLDERIE, FELLOW, THE HUBERT H. HUMPHREY INSTITUTE, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MINN.

Mr. Waldorn. Thank you, Mr. Chairman and distinguished panel members. It is a pleasure to be here today.

My statement is based on research which we have been conducting at SRI International over the past 4 years. The views and opinions I express, however, are my own. I am submitting a longer statement for the record.

The purpose of this forum—to consider options for Federal, State and local governments in a time of budget stringency—is a particularly important one. As the recent economic summit in Canada made clear, all of the Western democracies are currently experiencing a similar set of economic strains.

All are also involved in reassessing the role of government in promoting social welfare. In this country, inflation and slow economic growth have led the administration to set a high priority on the reduction of social welfare programs. At the same time, there appears to be a growing recognition at every level of government that many social problems cannot, in fact, be addressed by conventional service approaches alone. For young people unable to afford housing, housing counseling is irrelevant. Black youth not participating in downtown business booms don't need training for blue-collar jobs that no longer exist. Businessmen hindered by overregulation aren't helped by cosmetic improvements such as new streets and sidewalks in front of their stores, however attractive.

In this context, what I want to talk about today are some choices which we, as a Nation, need to make about how we meet public needs. Solutions to most difficult problems usually require more than conventional public services. Yet, for the past 20 years we have increasingly looked to publicly financed services as the only way to deal with issues.

First, however, I want to reflect on how we developed the current publicly financed, professionalized, bureaucratic service structure which we have today. Then, I want to describe the range of public service options which exist and which are beginning to be taken advantage of more and more. Finally, I want to discuss some specific steps the subcommittee may wish to consider.

It is not an accident that service expenditures have grown so much in the United States over the past 20 years. First, political forces, such as the civil rights movement and advocates for the elderly, have demanded from government at least symbolic responses to their needs. This has led to a proliferation of small service programs over the past two decades. We are all familiar with store-front service programs for women, Indians, and the handicapped. Second, the fragmented and supposedly nonpartisan bureaucracies we have established at each level of government have displayed a self-aggrandizement typical of all bureaucracies—public or private. They often put their own interests ahead of those they are supposed to serve by maximizing budgets and staff, as Tony Downs has pointed out perhaps better than anyone. Third, as long as our economy was expanding, it was easier to meet demands by allocating public funds than to readjust the rules affecting the private or community sector in different areas. Local officials in San Francisco faced with problems like Indian alcoholism found it much easier to apply to HEW for a grant than to convince some private hospitals that they needed to serve this population.

Yet, change is occurring. A fresh approach to problem solving is appearing among local public officials, community leaders, and others involved in urban problems. This approach holds much promise for the future.

Since 1977, we at SRI have been researching the ways in which local governments are addressing problems by using their governance powers to mobilize community resources in order to lessen the need for publicly financed services. The approaches we have studied have been denoted "nonservice" approaches to emphasize their distinction from the ones in which the primary objective is to deliver publicly provided resources—whether dollars, services, or goods—to those in need. Nonservice approaches, in contrast, seek to insure that needs are met by using traditional governance powers—taxation, regulation, and the ability to make changes in the way public agencies operate—so as to encourage all sectors of the community to help meet local needs. Thus, nonservice approaches may involve mobilizing existing community resources in new ways to fill gaps in the natural support network—to enable the elderly to help each other; to alter legal relationships, such as those which allow the exploitation of tenants by some landlords; or to promote changes in the way business and industry operate, such as encourage the hiring of the handicapped. All of these approaches are alike in that they do not directly involve the spending of public dollars to solve problems. Instead, they place government in the role of broker, mediator, or, in appropriate cases, protector of groups disadvantaged by some social condition.

We have identified six categories of what we call nonservice approaches: The first is regulation or deregulation, for example, lower-ing lot size requirements to enable lower income housing to be built in an expanding suburb. The second is tax policy changes. A good example there is providing deferred property taxes for the elderly until their homes are sold—perhaps after they die—thereby allowing them to stay longer in their own dwellings. The third is administrative reform, such as the crossing of boundaries between local bureaucracies to get a school system to allow local groups of handicapped or youth to use facilities when they are not needed for classes. The fourth is public-private collaboration, such as linking employers more closely to school programs, or allowing facilities like corporate cafeterias to be used to provide meals for the elderly.

The fifth category we have identified is the promotion of self-help, such as encouraging battered women, the handicapped, or the elderly, to get together and find ways to meet each others' needs. Often, self-help solutions are the ones such groups seek. They prefer to get together to think through their problems and to help each other rather than see a professional social worker.

Finally, there is the category we call advocacy by the public sector. Sometimes the best thing local government can do is represent the interests of its citizens before other governmental bodies, such as before a metropolitan transportation commission which may have routed buses so suburbanites can get downtown but urban dwellers can't get out to the suburbs.

These six types of nonservice strategies—regulation or deregulation, tax policy changes, administrative reform, public-private collaboration, promotion of self-help, and advocacy by the public sector—constitute a set of policy tools which local governments can use to solve their most pressing problems. They act by influencing markets; by making housing cheaper or by making tearing it down less advantageous; by altering institutional behavior, as by changing the policy of utilities in shutting off gas or elecricity in the winter; and by altering individual behavior, making it easier for people to take care of each other.

These approaches are important now not only because of the budget situation we are all so well aware of, but also because they can forestall problems. If a city protects sound, low-income housing through zoning, it reduces the need for public expenditure to build new houses.

We are convinced—on the basis of studies we have conducted in over 73 cities and counties over the past 4 years—that these approaches can make a profound difference in the ability of local governments to deal with problems.

Let me try to put these approaches in a broader context. The chart in back of me, which is also included in my prepared statement, indicates the spectrum of public service options available to deal with public problems.[1] On the left side, problems can be solved through personal action—people fix their own houses, or transport themselves. On the other side you have the public provision of services—such as public housing or heavily subsidized public transit. In between the extremes lies a whole range of solutions to problems. There is the encouragement of natural support between neighbors and among or within families. There is organized self-help, including volunteer groups of one kind or another. There are market approaches, such as encouraging banks to provide mortgages in areas where they rarely lend or encourage taxicabs to offer shared-fare services to the handicapped or elderly. There is a leveraging of private resources that comes from combining public and private. There is contracting out.

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[1] See p. 28.

As one moves from the left to the right of this chart the role of government changes. On the far left, in considering personal action, government's role is minimal. Where natural support, self-help, and market approaches are concerned, government can really do best by getting out of the way, by deregulating. Further along the spectrum, when you get into leveraging and contracting out, government has a directing role. Finally, when you arrive at the public provision of service, there is public monopoly of services with all the attendant problems.

These alternative approaches that focus on personal action, natural support, organized self-help, more use of the markets—how important can they in fact be? We wouldn't argue from our studies that they are "magic." They can't accomplish what services often can for nothing. Changing rules, redefining the roles of different sectors, these are often harder—as is shown in the example of Indian health which I used a minute ago—than spending money.

Nor are nonservice approaches costless. They require staff to implement them, for example, staff to rezone a declining neighborhood to encourage new housing, or to organize for self-help. Some of these approaches quite clearly shift costs from one sector to another, such as encouraging employers to provide child care.

Yet, we believe these approaches often represent a better way of doing business than the patterns of public service provision that have become traditional over the last 15 or 20 years. These approaches can expand local governments' awareness of all the resources available to them for solving a problem. They suggest a different mindset which doesn't say, "Here's a problem, what do we need to spend?" but a mindset which says , "Who can help solve this problem? What inducement can we provide? How can service approaches and nonservice approaches be blended to help lessen the problem we are trying to address?"

Let me now just briefly highlight a couple of areas where nonservice approaches may be particularly salient.

Recently, under the sponsorship of the Ford Foundation, we brought together almost 50 representatives of State and local governments, private businesses, minority and community-based organizations, and other foundations to discuss how nonservice approaches might be used in the present context. Most of the people at the meeting agreed that nonservice approaches were an important framework for mobilizing the different sectors and for providing a complement to the traditional inventory available to the public sector.

As we move into block grants, as we move into new ways of doing business, we have to insure that new Federal programs (a) allow these kinds of activities to be supported and encouraged; and (b) we have to insure that there is leadership at every level—local, State, and national. This will encourage the different sectors to work together. This leadership must encourage local governments not merely to reduce publicly financed services more and more, but to use some of their resources to break out of conventional bounds and use nonservice tools to mobilize sectors in the ways I have described. My formal statement elaborates on these remarks to a greater extent.

I appreciate this opportunity to present this background and look forward to a healthy interchange with the panelists.

Senator **Durenberger**. Thank you very much, Steve.

The next witness will be Tony Downs.

Mr. **Downs**. I am pleased to testify here today and hope that I can produce the miracle of condensing this subject to 10 minutes while remaining intelligible. In doing that, I will state only my own views, because the Brookings Institution required me to disavow any connection with it from any thoughts I might have on any subject. [Laughter.]

I will summarize the longer statement that I submitted earlier.

Governments are caught in a squeeze today between two conflicting forces: The unwillingness of their citizens to continue to pay high taxes, and their continued desires to keep receiving many public services. This conflict arises in part because of the past success of government in achieving certain goals. Some examples of this are the providing of greater equality in public services to areas and persons with different resources, and keeping the compensation of public workers comparable to that of private-sector workers, regardless of their relative productivity. Therefore, efforts to resolve this basic conflict may require the sacrificing of some valued past achievements of these goals. Some of these goals are spelled out in more detail in my statement which I submitted for the record.

I have identified six possible strategies for coping with this squeeze which I will describe. One is raising taxes in spite of citizen resistance, perhaps by using less visible forms of taxes. I have noted in traveling around the country that hotel taxes are going up rapidly because they fall on nonresidents of the community.

Second is reducing the services received by the public.

Third is producing the same services or transfers with fewer inputs or lower cost inputs. This involves improving the efficiency of such production in some way. There are at least three tactics for accomplishing this: One is by increasing competition among the suppliers of these services. One way to accomplish this is to increase competition among service providers within the public sector—for example, by allowing parents to send their children to any one of several public schools within commuting distance from where they live. To do this, consumers must be able to direct the funding of such services to the suppliers of their choice. Another is by reducing the relative compensation of government employees. This reduces output cost, since the relative cost of producing public services should fall, assuming efficiency of producing does not decline. The third tactic is by improving managerial efficiency within the public sector. But just urging public employees to exhibit greater productivity is not likely to work.

The fourth strategy is tightening the linkages between those who benefit from specific public services and those who pay the costs of those services. This reduces the chance that people will clamor to receive services they don't really want to pay for. The classic example is local citizens using 90 percent Federal matching money to create public works which they would never pay for if they had to pay all the costs themselves. The subway systems of this country are monuments to that particular arrangement.

Strategy number five is shifting the provision of services to the people who use them. This might require shifting the funding of services downward geographically from national to State levels or local governments to where the services are delivered. However, this is an inappropriate action for services designed to help redistribute incomes or resources among persons or areas with very unequal resources. An example of shifting the provision of services to the people who receive them is having citizens buy their own trash-removal service. This is different from consumers using public funds to choose among many suppliers, since there are no public funds involved. This tactic is only appropriate in areas where people have enough income to pay for the services, not in very poor areas where those services require outside funding.

The sixth and last strategy I will mention is changing the nature of the services provided so they require fewer or less costly resources. This is not the same as increasing efficiency, which means reducing inputs per unit of any given output. This approach involves changing the outputs themselves so the same needs are being satisfied in ways that require fewer real resources or use less costly inputs. Ted Kolderie has called this approach "redesigning services." An illustration of this would be the shifting of health-care funding from an emphasis upon "crisis care" in hospitals to an emphasis upon preventive activities.

Each government will undoubtedly use a mixture of these strategies to cope with its fiscal squeeze. It will vary the mixture to suit its circumstances and because different strategies are appropriate to different types of services.

For the remainder of my brief time, I would like to mention some key factors relevant to choosing the right mixture of these different strategies.

First, big public agencies are bureaucratic. They are not likely to change themselves without strong outside pressures. Therefore, the initiative for agencies to try new approaches to public services will often have to come, not from those agencies, but from private organizations in the same communities. Sometimes it will come from private suppliers who might be competitive to public organizations. For example, private mortgage insurance companies are now pressuring the Federal Government to minimize the future role of FHA mortgage guarantees so they can take over that market.

A second factor is that inflation often allows public agencies to reduce the real costs of their activities, or even the real benefits provided. They can do so by not raising their compensation or benefit levels in dollar terms as the general price level is going up. The third factor is that a major part of rising public sector costs has been because of higher public employee wages.

So, almost every government strategy described earlier for coping with the basic squeeze affects the welfare of public employees, and is related to their bargaining power within that government. To minimize public-employee opposition, they should participate in any redesign of services. Also, when neighborhood groups start providing large parts of their own services, they could be trained or coordinated by present public workers acting as skilled cadres.

A major motive for the taxpayers' revolt is the resentment of the middle-class and working-class voters against government redistribution of incomes from them to the poor. So it will be tempting for local governments, and even for the Federal Government, to use these new strategies for providing services as a means of reversing our past move toward greater equality of opportunity in public service delivery.

The strategies I mentioned would lend themselves to such a "regressive" movement; so one of my major concerns in this whole area is that we avoid that outcome. Any shifting of service provisions to the private sector without also providing public funding would be regressive, if it were applied to services that should be received by everyone regardless of income, especially if such universal receipt provides benefits for the whole society. For example, if trash removal or education were shifted from a city or local government function to one provided by private citizens from their own resources, poor people would have a much lower level of those services than at present. That would be a detriment to society as a whole, because it benefits society to have reasonably clean neighborhoods, and especially to have everyone well educated.

Competition in providing services can be increased via an "exit" from one supplier to another if consumers can gain access to suppliers in more than one jurisdiction. However, even providing public funds to consumers and allowing them to choose among suppliers will be regressive if the competitive suppliers were in other jurisdictions and the consumers couldn't move to those jurisdictions for other reasons. One such reason would be exclusionary laws designed to raise housing costs so that low-income citizens could not move into those neighborhoods.

Under these conditions, a shift of service-provision downward from large, high-level governments to smaller, lower-level ones would make it more difficult to finance services for the poor with taxes from the nonpoor residents of the same jurisdiction. True, greater emphasis upon local provision of services may help people participate more directly in controlling their own destinies, thereby counteracting common feelings of powerlessness. But such a downward shift of service provision should not involve a systematic decrease in the basic equality of access to fundamental services that everybody should receive, such as justice and basic education.

A last factor I will mention is trying to reverse the overprofessionalization of services in modern societies. Professional service providers are trying to carve out domains in which they simultaneously act as quasi-monopolists on both the supply and demand sides of the market for certain activities. Most attempts to redesign public or private services to increase the roles of the beneficiaries themselves in providing those services are movements away from such overprofessionalism. There are some signs of increasing desires and abilities among more people in our society to provide their own services, rather than relying on professionals. An example is jogging or other exercising to improve health.

There probably is a long-run trend in our society toward more individualization of life styles and even more "communitization" of lifestyles. Our challenge is to aid that trend by redesigning or changing methods of delivering many public services in our society without sacrificing the tremendous advances toward greater equality or opportunity we have made during the past 40 years. I think it is time to start considering how we can meet this challenge in imaginative new ways.

Senator **Durenberger**. Thank you very much, Tony.

Our next witness will be Ted Kolderie.

Mr. **Kolderie**. Thank you, Senator.

I am glad to be here. I would like to incorporate by reference, if I might, the normal disclaimer.

Senator **Durenberger**. So done.

Mr. **Kolderie**. I think the public service system is already in a transition. We are describing something that is taking place, not trying to invent something that isn't happening. We are basically looking for ways to get out of the political problem in which governments are caught. We are trying to find ways to make sure that the generalized fiscal pressure, which is now falling on the public sector at all levels, translates itself not into service reduction but, as far as possible, into the two things we really want to have it produce. They are appropriate priorities and genuine efficiency. Increasingly, we are inclined to feel that the political process is not terribly good at accomplishing this. It violates the famous principle about doing no direct harm. So, we are looking for alternative mechanisms to the political system for accomplishing this kind of change, and for seeing that this pressure is played out into ways of doing things better.

There is a lot of this transition underway. It is simply happening in very small pieces which are very scattered and dispersed. It is hard to see transitions which take that form. So, it is good to try to bring this kind of thing into the series of hearings being held here. It is very much like the gradual conversion of this country's energy system: A large number of small decisions which gradually accumulate into a major change, such as a declining level of oil imports.

We are looking for ways to understand, and for terminology to describe, what actually is happening here. We are also looking for ways in which it is possible for the public sector, and the Federal Government specifically, to assist this transition a little more skillfully. It is going to take a good deal of time to accomplish this, as it took time to accomplish the transition away from domestic service in the early part of this century to the kind of supported self-help system represented by people in homes doing their own gardening, sewing, and cooking.

It is very important at the beginning to do what we are trying to do today, which is to get our concepts clear. Let me try to run through several which seem to me to be the most important ones.

First of all, it is very important to see this is not what I would call "privatization." It is not throwing people back on the free market. There is some of that. Communications is privatized: We are all on our own, and on our own resources, as to the television we buy and the telephone service we buy. We don't get public sector help for that. What we are talking about today are the things that public policy decides should be provided. They are public in the sense that the government, at one level or another, is willing to finance them. It is within that fundamental concept that we then begin to talk about ways in which to arrange the doing of those things.

Second, let's try to see what we are talking about with respect to alternatives. Our object is to introduce into government at the local level—what Fred Hayes used to call a "low-change system"—the kind of incentives or dynamics that will result in medium or high change. Our strategy for doing this is to introduce into those systems greater elements of diversity, choice, and competition. There are other things that people try to do to accomplish this increased ability in local government to change—such as managerial improvement, or better training, or different people. The strategy we are talking about is the strategy of alternatives. This strategy works by creating the possibility that some organizations will grow, and others will decline if they perform better or less well.

Tactically, we get to these options, of course, by simply carrying into the public sector the commonsense wisdom that, whenever possible, you ought not get caught with a sole supplier of anything—the plain principle you use in your personal life and in your private business, if you are in private business. Everybody should want to keep his input markets competitive, however much you may want to monopolize your output market. The traditional system is for the Government to be its own monopoly supplier. We are basically trying to move away from that.

We are introducing a diversity of suppliers in a variety of ways. It is perfectly possible for different organizational agencies to be suppliers. We have a wonderful case in our area where one suburb has a choice every year of handling police service itself, buying it from the municipality next door, or buying it from the county sheriff. Alternative suppliers can also be private; and, if private, they can be commercial or noncommercial. You have the option of mixing all of these together in the same service area.

It is very important also to introduce some diversity of buyers in the public sector as a part of this strategy of change. To the extent things have been bought by the administrative bureaus and departments, this responsibility can be transferred so that it becomes a function of the central administration. You can shift back and forth among levels. We have an interesting case in Minnesota. The State legislature had simply been appropriating funds to the Metropolitan Transit Commission (MTC). This is going to change. The funds will now go to the suburban municipalities. They will be prohibited from owning vehicles or hiring drivers. They will simply use the funds to procure transportation services for their people, from whatever source. They can move money outside the public service system to individuals, through a voucher system.

Third, and an important part of this whole line of redesign, is to think about the ways that the money flows. I described, just a minute ago, the 1981 legislative change in Minnesota about money-flow for transits. If you give the money to the MTC, it will spend it on itself. If you give the money to the municipality, it will spend it in a very different way.

Prices are important I will leave it to the gentleman on my right to talk a little more about user charges and their growth later. However, I do want to say that they are one of the higher-potential ways of increasing the flow of funds into the system, given the restraint on taxes. Prices are not only a way to increase the system funding; they are also a way to increase the incentive for better utilization and priorities.

Fourth, it is important not to try to concentrate on designing the services themselves, but to concentrate on those changes that will give the people in the system, who are much closer to the problem, an incentive to find the best ways of doing things. Don't try to push managerial efficiency down the throat of people in the system. Give them a reason and an incentive—by putting them at risk of failure and the potential of reward—to introduce those managerial improvements themselves.

Fifth, we need to get rid of the old idea of "avoiding duplication" in the public sector. That is one of the most perverse ideas that has gone around for a long time. I am particularly sorry to see it used so long by businessmen. I think they suffer from a basic confusion between the principles on which you organize a business firm, and the principles on which you organize an industry. We ought to approach the problem of restructuring government with the same principle we use in restructuring an industry: competition among suppliers.

The sixth part of this is going to involve rethinking our way through the question of accountability. In a lot of this discussion there is the assumption that accountability has to take a political form. It means being appointed and removed by somebody in the public sector and being subjected to audits. For a lot of people out there in the community, the real meaningful accountability is not the opportunity to vote somebody out of office or to change a whole public service. It is the opportunity to walk away to somebody who, in your judgment, will do it better. That is the kind of accountability we need, along with more voice, citizen participation and so forth. We also need an increase in what we have called "exit" strategies.

Seventh, we must be willing to go into some battles. As Tony Downs indicated, some of these things are going to be controversial and will be resisted. The fact they are going to be opposed is not a reason for not taking on the battle. I was very encouraged yesterday afternoon. I ran into a woman in Minneapolis in the grocery store who told me that this year was the first time in anybody's recollection that the Minneapolis school board itself put something out on the table. It is going into the bargaining process.

Eighth, we are going to have to get over whatever prejudice remains against the involvement of for-profit organizations in some of these service areas, particularly the human services area. Over long periods of time, society continues to have the basic necessities of life organized in that mode—food, shelter, clothing, and medical care. I think, myself, this is not so much a problem; it is more a problem of scale. It is not bad to have profit organizations so long as they are small; and even if they can grow.

Ninth, I think we need to get over our sense that we must start with the hardest case first. Many of the changes that have happened have started with the easiest subject first. Total changes are going to come through the initiative of private entrepreneurs. They are going to start in the market where people have money, and then, as the economics improve, are going to go on to people who have less.

Finally, I think we have to be aware that there is not going to be any simple big bang solution or "quick fix." We are talking about a kind of system change that is not going to come by the passage of a single law. Government may have to have a much more passive role. It will take time, but it is important to get started.

Senator DURENBERGER. Thank you very much, Ted.

Now we will move to questions from our panel. Do any of you want to make an opening statement, or should we go right to the questions?

Mr. DOWNS. May I make one quick observation? I hope there is no one from the Moral Majority here to hear Ted's assault on the traditional concept of marriage by saying no one should ever get caught with having a monopoly supplier in one's personal life. [Laughter.] I hope his wife didn't hear that either.

Senator DURENBERGER. They are everywhere, Tony. [Laughter.]

We have about a half hour allotted to the question section. I am impressed by the fact that none of the three surrogate Senators showed up like typpical Senators, with little 3-by-5 cards of questions which some anonymous staff person has prepared so they can sound like Senators. Maybe we will have the real thing here. We will proceed with Dr. Schultze first. You can either ask all your questions or ask one or two. Then we will pass on down the line—trying to keep this informal.

CHARLES L. SCHULTZE [MEMBER, REVIEW PANEL], SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. SCHULTZE. Thank you, Senator. I am going to act enough like a Senator to open my questions with a statement. I am sorry; it was just drummed into me.

I have one major question for anybody who wants to take a crack at it. Let me throw out two observations before I start which were ticked in my mind by listening to the three statements. First, my guess is that if you ran a poll of people in this country and asked them two questions on that poll—first, "Do you think we have overdone income redistribution," and second, "Do you think government is too big"—there would be a very high correlation of answers, which are by no means universal. A large number would say we have overdone income redistribution and will also say government is too big, Conversely, there would be liberals who think we have undone the one.

It seems to me one of the big major points in these statements is that you have to split them in your mind. You don't have to redistribute income solely or principally by evenly providing government services across the board. Conversely, if you want to make government smaller in terms of what it actually does as a bureaucracy, you don't have to redistribute income against the poor. Unless you sort that out, you are likely to do one thing you don't want to do while you are trying to do something else you do want to do.

The second proposition has to do with accountability. Mr. Kolderie, I believe, said we need a different kind of accountability—that is, not so much throwing the rascals out, but voting with our feet by going elsewhere to get the same service, in the case of public services. I agree with that. I would like to add an adverse—converse to that—that, paradoxically, we need less old-fashioned accountability. If you are ever going to get the private sector to do more, in a sense, you have to be willing to take losses.

One of the things that is fairly typical of governmental provision of services is a kind of green-eye shade accounting approach—conservative; cautious; dear God, don't rock the boat; make sure you never get caught with any kind of scandal. Paradoxically, you have to be willing to take risks if you want to get more competition. You have to look at the number of small business failures. If you want to make it a little more like a market, you also have to be willing to take your lumps. I think those lumps are not being so narrow by judging the success or failure in terms of the numbers. In fact, if they are any good, they will.

Let me ask my question with just a side comment. For a number of years, I have spent a lot of time over on the other side of the table. I was looking forward to drilling the witnesses.

Senator DURENBERGER. That is what one election will do.

Mr. SCHULTZE. Most of what the forum is going to talk about is what I call informative—what ought to be done. I have kind of a positive question, positive in a sense of predictive.

It is fairly clear, as every panelist has said, that there are many things the pure private market cannot do. However, it is not necessary to go all the way over to the other end of the spectrum and have bureaucratic provision of governmental services as the only solution. There is a broad spectrum in the middle.

While not a student of comparative government, my impression is that if you look at other modern societies—outside of the Japanese who have 2,000 years of different history—they have all developed pretty much the way we have. They have bigger bureaucracies that are even more centralized with even less local choice. That isn't 100 percent true, but there are many. If the market approach doesn't work, how do we do it? Give it to Government? My problem is if we are so right intellectually, why is it that virtually every society has developed in the "wrong way" with respect to this? Are they all dumb or are we so smart?

Mr. WALDHORN. I just came back from planning a meeting which we will be holding at the Rockefeller Conference Facility in Italy on nonservice approaches. I was astounded to see, in the course of this planning meeting, how many similar trends there are elsewhere—how much interest there is in Germany, in France, certainly in England, in finding ways to disassemble the bureaucratic apparatus, finding ways to tap into this self-help. People are struggling. They have frameworks they have not yet put content into.

I think this mood is spreading throughout Europe. A delegation of British industrialists will be visiting here in October. They will be going to Pan-American cities to try to think through what they can learn from us. I think there is a universal disenchantment with large organizations, about which Tony has persuasively written. The question people are struggling with is—and we are not alone—how do we get alternatives without killing them? I think we can all come up with an example of a good alternative which was killed or encapsulated in regulations.

Mr. DOWNS. Why couldn't it be evolution? We are all moving in the same direction, but maybe now the U.S. is moving to the next stage. That would be my way of looking at it, rather than thinking we are going in a different direction, or because they have larger public sectors than we do means they are more advanced than we are. It seems to me, as Steve mentioned, this is a stage of evolution. As governments succeed in providing some of the most fundamental services—public sanitation, provision of basic health, and things of that character—they then move into areas where individualization is more sensible. That is when we evolve toward a different approach. That would be my way of looking at it.

Mr. **Kolderie.** I know what Steve is talking about. I was in Denmark last summer, listening to the people with the Association of Municipalities. There clearly is an effort to find ways to cope with the reduced availability of funds. More recently, I have run across some experience coming out of England that suggests some of the dangers of going into a program of reduced Federal expenditures in community services. They have had a counterrevolution this spring in the local government elections in Britain. There is also, of course, a tendency for national and local elections to turn in opposite cycles. There are some major changes in the opposition party and a very new kind of person is coming into the Labor Party.

Just recently, in London, the new group that took over the Greater London Council, which is responsible mainly for the London Transport, has put through a fare-reduction program. To finance this program, they passed a 125-percent increase in property taxes that supports transit in the Greater London area. They are just mercilessly caught in a clash in which efforts to cut back the central government's funding of services result in a kind of counterrevolution.

I think that becomes very important in this country, whether at the Federal level or the State level, in expenditure reduction. We had better think hard about making something happen out there in the system, so that those changes are translated into service improvements.

Senator **Durenberger.** Bob?

ROBERT CARLESON [MEMBER, REVIEW PANEL], SPECIAL ASSISTANT TO THE PRESIDENT, OFFICE OF POLICY DEVELOPMENT, THE WHITE HOUSE

Mr. **Carleson.** Just a quick observation. I think Dr. Downs mentioned the fact that there would be areas where we would have to be careful through this service shift—that we don't, in effect, change the redistribution to the poor. I presume you are presenting that in the form of services rather than income.

Following up on Charlie's comment, I think we should establish sort of a reverse burden of proof here. If the private sector isn't or can't provide it, we should not just assume, therefore, that the public sector has to provide it. Maybe it is a clue that because it isn't provided or can't be provided by the private sector, it isn't necessary or it is a low level service. What we have tended to do is react the other way. We have assumed that if it is not provided by the private sector, it must be provided by the government sector. In effect, I think we should establish a concept of a burden of proof on those who would want to assume that a service should be provided or guaranteed by government—one of these general services that everybody should have access to. I think we should question whether that is, in fact, the kind of service everyone should have access to if it is not provided by the private sector.

Mr. **Downs**. Not only that, we should also question whether shifting a service to the public sector means that it would be provided better by the public sector.

Mr. **Carleson**. That is right. I assumed that.

The other point you made, which I think is relevant, is that when speaking of public jurisdiction—such as the city government and so forth—because they get 90 percent Federal funds, they construct facilities which they really might not want. At least, they don't want it enough to have to pay for it. Frequently we have funded, especially in the last 10 years, a lot of these public facilities that really are not utilized. Maybe this shows there was a reason why they weren't paying to do that.

I think we can also take that experience, as it relates to governmental jurisdictions, and apply it to individuals. Frequently because it is free or heavily subsidized, it is something that, even though they might use it, may not be needed because they wouldn't have provided for it themselves.

As we talk about the question of moving from provision of services from the public to other sectors, we should also be aware of the need to reduce the overall amounts which are provided either by government or by, let's say, non-profit-making members of the other segment. Is there any reaction from the panel on that?

Mr. **Downs**. I assume you mean the amount provided by redistributing funds. But I see no reason why specific services shouldn't be provided if the people who use them pay for them.

Mr. **Carleson**. That is right. I do mean by redistributing funds.

Mr. **Downs**. Yes; I would agree that the problem is: "How do you decide which services society ought to make available to people regardless of their ability to pay?" That is one of the main reasons for public sector action—whenever the private sector cannot furnish those services or many people can't pay for them unless there is a redistribution of income. As you said, the need to redistribute income should not necessarily lead to the public production of that service, although it may have to lead to public funding.

Mr. **Carleson**. Couldn't the absence of that service for that group be an indication that, maybe, it is a low priority? Couldn't that go into the decisionmaking process?

Mr. **Downs**. Yes, but you can't just assume that because people don't buy something they can't afford that they should not have it. Examples are public school education, sewer and water service throughout most of the world, et cetera. Society may have to provide these services at public cost. It is not necessarily true that because people are not buying a service, society does not need to provide it.

Mr. **Kolderie**. I think the comments make clear that there are really two discussions here which turn around these different concepts of producing and providing. It is important to see how we use the terms. I like to say that I "provide" a college education for my son. I don't "produce" it. I pay the University of Minnesota, or Macalester or St. Thomas College to get it produced. I provide it.

One debate is "what ought to be provided"—in other words, where we guarantee access as a result of a public policy decision by some level of government. That is the debate about providing which we might or might not want to get into. To some extent, the other discussion is about producing whatever it is public policy, in its wisdom, has decided ought to be provided. How do we get that produced? Does government become the producer? Do we turn more to the private sector, commercial or noncommercial, for the production?

Mr. **Waldhorn**. I just want to raise the issue I think accounts for some of the services about which we are all somewhat skeptical—that is, service substitution. Service substitution is training where people need linking, or counseling for battered women when what they want is legal protection. We are offering services to the handicapped when what they want is ramps where they can live or work. I think some of the "services" we have are efforts to deal with problems. A more direct way would be to change the status of people and the opportunities they have. This would take us a lot further.

Mr. **Schultze**. Let me point out, to the extent you split into "providing" and "producing," that that is not the only way you produce. For a moment let me stick with Ted's point. If you want to save budget money—let me see if I can say this—having alternative forms of production basically doesn't save budget money. Maybe you can say, in the long run, it is more efficient and you can produce the same thing more efficiently, but that fundamentally isn't it. Again you come to the point that it may very well be in many, many, many cases that private production—private alternatives—has little to do with the budgetary problems. It still has to be funded by government. The question is "Who produces?" Again, there is a big distinction, because many of the most important things which might very well be done through the private sector, at least initially, don't save you a dime in public funds.

Mr. **Kolderie**. I think it is important, to see that dollars really are saved by doing less. Let me underline, too, one other thing. I won't say from any of my experience that there is any magic extra effort from shifting from a public producer of a service to a private producer. You can get ripped off just as bad by a private contractor as a public agency. The critical change is the shift from a monopoly producer—public or private—to a competitive situation where you, as an elected official, for example, have opportunities to chose between and among producers, public or private. There is no one "best way."

The whole idea that you are going to run test, demonstrations, and experiments to see whether a private producer or a public producer is "more efficient" is nonsense. What you should do is have two of each, or one of each. Your only safe system is a mixed system.

Mr. **Waldhorn**. What about reducing the need for the services entirely by providing incentives for people to help themselves, or by trying to find some legal or other means to open access?

Mr. **Downs**. However, public producers are often pursuing multiple objectives. Therefore, when you shift from a public producer to a private producer, you may also change objectives. When public housing is built, the government not only seeks to create shelter, but also to promote equal opportunity employment, to achieve certain minimum construction standards made to withstand heavy wear, and to pursue all kinds of goals that are built into a lot of public regulations. If you just shift some service to the private sector without taking those goals with you, you change the nature of what you are contracting for. The private sector would concentrate more on the primary objective—which, in this case I assume, is providing housing.

So, there is a difference in providing the normal output produced by the private sector, where the producer typically focuses on a more limited set of objectives, and the public sector, where the producer seeks many goals built up over the years. There may be good reasons for these added goals, but they increase costs. The private sector doesn't normally pursue all these objectives.

Mr. KOLDERIE. Why wouldn't you take whatever specifications you want, as you move from bureaucratically organized service to procured service?

Mr. DOWNS. You could, but if you don't do that quite explicitly, you are often changing the nature of what is produced. Sometimes that reduces costs and beneficially cuts out a lot of baggage. But sometimes you don't want to get rid of such baggage.

CHARLES M. GRAY [MEMBER, REVIEW PANEL], PROFESSOR OF ECONOMICS, COLLEGE OF ST. THOMAS, ST. PAUL, MINN.

Mr. GRAY. When I first began exploring this question a couple of years ago, I found that I had a great deal of difficulty perceiving exactly what people were talking about. I had conversations with Ted Kolderie and a number of others. I found that my previous training was something of a barrier between myself, my understanding, and what was taking place out there in a variety of settings. I realized fairly quickly that, as an economist, I had been trained in how economic theory explains the behavior of the private enterprise business firm. The theory of public finances explains how government works. However, the things that we are discussing seem to be a combination, falling in between these two extremes. Only recently have academics, including economists, begun to turn their attention to these new kinds of organizational structures.

I am curious to know whether you have received any guidance from the academic community; or, if not, what you think the academic community could provide in terms of training, in terms of understanding the different kinds of structures that we are beginning to talk about now.

Mr. KOLDERIE. I think that by and large the academic work—a lot of the teaching and much of the research on the public sector—is based on the assumption that management is administration, and that people are prepared for public service by training as administrators to do things. They are trained for that classic model. I don't know if there is a lot of academic preparation that would train somebody to be—dare I use the term—"procurer."

I had a very interesting conversation recently with the commissioner of transportation in Minnesota. We could learn a lot from commissioners of transportation and basically from the wisdom of the highway department over the ages. They do their work traditionally through an organized—and unionized—contracting industry. Over the years they have learned the importance of keeping a competitive vender industry. They do all kinds of things—including the way they organize jobs, and the size in which they organize lettings. Some people even distinguish a difference between political parties, in the size of the jobs that are let. Emphatically, a part of it is to maintain a diversity and a competition within their industry. I know of very few examples where the commissioner of highways will be brought into an academic setting and have his experience drawn on. By and large what they teach is administration.

Senator DURENBERGER. Any other reactions?

Mr. DOWNS. Administration lends itself more to the bureaucratic goal of self-grandizement than procurement does. If there is to be a different view of the public sector as a provider but not necessarily as a producer of services, there probably has to be a change in the incentives and reward structures facing people in the public sector. They are now rewarded—as many of you in this room can testify from your own personal experience—by the size of the empire or subempire under them, rather than by the size of the services they manage. Maybe I am wrong about that.

Mr. WALDHORN. I think that point needs to be emphasized.

Some of our studies looked into the promotion of family day care. None of the rewards of promotion, salary or transfers to the State go to local agency personnel who go out and organize a neighborhood to take care of its own children. There is no way to measure that in order to justify a promotion. Until those issues are dealt with, there is going to be this pressure of pushing people toward the conventional methods.

Mr. SCHULTZE. That is true in the family, too. If you could provide services to people who really need them, using careful discrimination as to their true needs and you did it universally, we might not be sitting here.

One of the real problems is the tension between having the right rules, having to be fair, having to make sure government doesn't become completely arbitrary, on the one hand; and doing precisely what you want, on the other. One of the things, it seems to me, that is going to be worked out and sorted out is a recognition of this inevitable tension. I only come down in between. It seems to me that is the nature in a lot of these problems—that you cannot, on the one hand, expect the bureaucratic regime to do anything but generate 86,000 pages of rules. Conversely, however, you can't simply say, "Let, somehow, it be done;" and then reward people who do it well with kindness, fairness, innovation, and imagination. I don't know how to get in between those.

Senator DURENBERGER. I am going to cut off the response to that, although it is a good question.

Do you have a question?

Mr. GRAY. Just one quick comment—that is to respond to incentives having been brought out in the discussions by the presentors.

I found the term in Ted Kolderie's paper and I underlined it. It strikes me that this is one of the greatest challenges that we face: How do you restructure incentives without a market and without voting? Do we perhaps have to combine the two in some fashion? It is going to be difficult.

Senator DURENBERGER. Bob?

Mr. CARLESON. In a sense, just a follow up to my original question of which Charlie made a point later. If we are merely talking about substitution—in other words, directly substituting for government-provided services some other method—we are making some savings through competition which is good and some savings through efficiency which is good. If we are just talking about substitution, I am not sure how much we are accomplishing. I am very much for what we are talking about here today.

I think we have to be aware that there is also a need to reduce the total amount provided, by identifying what services and for which individuals this really is not necessary—it is not really needed; it is really not the right kind of service. In other words, we should start with the idea that the burden of proof should be on those who would want to expand the service.

One other minor comment on the question of down-zoning. I have a slight problem with it. As a former city manager, these kinds of things gave us problems. If the purpose of down-zoning is done for a good planning purpose—in other words, it is decided that this is the place you want to have residential areas, you want to continue it that way, and it is good planning—then I think it is justified. But if we down-zone for the purpose of shifting the cost from the public sector—in other words, building housing and doing it for the purpose of shifting the cost to the people who may lose value in their property by having it down-zoned—then I think we have a different problem. I would just make that as a comment.

Senator **Durenberger**. Thank you.

I want to ask two questions with the 2 minutes remaining to me. You are acting like Senators; you used up all my time. [Laughter.]

Ted makes a point in his statement that the Federal Government has focused too much on Governors and too little on State legislatures. This is getting to the practicalities of implementing this. I can verify that this is true. Maybe Bob can also verify that, and so can others. Certainly, this whole argument about what we are going to do with medicaid can verify that, if only the Governors were sitting with us and speaking for the States and all of the people who have health care needs out there. We have seen little or nothing of the legislature. I suppose we have asked for this to a degree.

Maybe I can start with Ted and ask him to elaborate on that, since we are in a Federal forum on intergovernmental relations. I then will ask the other two of you to react to whether we, in the Federal Government, have focused too much attention on Governors and too little on State legislatures.

Mr. **Kolderie**. With the exception only of the Post Office, the systems out there in the States and communities are not systems owned and directly controlled by the Federal Government. They are systems owned and controlled either by private organizations or by State and local governments. The Federal Government can influence these to some extent by the money it gives and the requirements it puts on that money. However, the real power to reorganize those systems is in the lawmaking process in the States. It is not in local government itself; these systems are really made by the State legislatures, and not by the Governors. The Governors can't remake those systems.

I remember some years ago I was with Mr. Schultze at the first White House Conference for State Legislative Leaders in 1966. It was just hilarious. The Federal Government officials, by and large, had no idea of what a State legislature was like. It was like a couple of 14-year-olds out on a first date—or whenever they start dating. By and large it is very hard for the Federal Government to think in terms of the States. However, the lawmaking process of the States is absolutely essential to this.

Senator DURENBERGER. Any other comments from any of the panelists?

Mr. DOWNS. He must not have any 14-year-olds. [Laughter.]

Mr. KOLDERIE. I will say one other thing. We have talked a lot about service, and the substitution of more service producers for the monopoly service producer. I think it is important not to lose sight of Steve's argument that there are other ways to organize these things than a service mode.

We have also talked a lot about efficiency as if cost savings were the only or the major part of the whole thing. I think there are other objectives and values in here besides cost savings.

This whole business of options, alternatives and choices is really a way to empower people. People do not feel very powerful relative to a monopoly producer, whether it is a public bureau or a public utility. Last year I had a young woman in my office who got very angry because, when she, wanted to have her telephone installed, the telephone company told her they would be there between 8 a.m. and 5 p.m. She said, "I work between 8 and 5." But that is the only time they do it. The post office near my home opens after I leave for work and closes before I get home.

There is an important issue of responsiveness. Producers who are in a noncompetitive mode tend not to be open and available when you need them. That is one of the things we need to change within public services.

Mr. WALDHORN. I would just like to raise another issue. Diversity can really not be legislated. You can't just pass block grant legislation, and expect every State and locality to experiment with options. Indeed, the block grants may represent a problem if the States take them and apply their standard audit procedures, thus driving out the diversity other organizations have created over the last 15 to 20 years. That is where a hearing like this, in creating a different mindset, has value. Leadership at every level of Federal and State government can encourage people to talk about these options, can meet together and find ways to experiment which are good.

For example, in the meetings that we at SRI hold, most people who come are traveling on some kind of Federal grant because their local budgets don't allow them to travel. Now, as we move to State and local guidelines—which don't allow travel—instead of Federal guidelines, we are going to reduce the information flow. We are not only going to reduce the Federal presence, we are going to reduce the factors that allow for local creativity. I would hope, as you make your deliberations, that you try to think through that. While you can't mandate creativity, you can promote exchange between the folks.

Mr. CARLESON. I would say this would result in a creation of more SRI's around the country so that they would be more conveniently located. [Laughter.]

Senator DURENBERGER. Thank you very much, panelists and witnesses. Nobody is excused.

[The prepared statements of Messrs. Waldhorn, Downs, and Kolderie follow:]

OPTIONS TO DEAL WITH PUBLIC PROBLEMS: THE ROLE OF NONSERVICE APPROACHES

Statement Of

Steven A. Waldhorn
Director
Public Policy Studies
SRI International

Before The

U. S. Senate Subcommittee On Intergovernmental Relations
Forum on Alternative Service Delivery

Washington, D. C.
July 28, 1981

Mr. Chairman and distinguished panel members,

I am Steven Waldhorn, Director of Public Policy Studies in the Health and Social Systems Division at SRI International (formerly called the Stanford Research Institute). It is a pleasure to be here today.

The purpose of this forum -- to consider options open to federal, state, and local governments in a time of budget stringency -- is an especially important one.

My statement today is based on research conducted at SRI International over the past four years. The views and opinions expressed, however, in the course of the presentation are my own and not necessarily those of SRI International.

As the recent economic summit in Toronto made clear, all of the Western democracies are currently experiencing a similar set of economic strains and need to reassess the role of government in promoting social welfare. In this country, inflation and slow economic growth have led the Reagan Administration to make a high priority of the reduction of social welfare programs in the 1980s. At the same time, there appears to be a growing recognition at every level of government that many social problems cannot in fact be addressed by conventional service approaches alone. For young people unable to afford housing, housing counseling is irrelevant. Black youth not participating in their cities' downtown business boom don't need training for jobs that do not exist, and businessmen hindered by overregulation aren't helped by cosmetic improvements such as new streets and sidewalks in front of their stores, however attractive.

In this context, what I want to talk about today are some choices which we as a nation need to make about how we meet public needs. Solutions to the most difficult problems usually require more than conventional public services. Yet, for the past 20 years we have increasingly looked to publicly financed services to deal with issues. The Senate Subcommittee on Intergovernmental Relations is, through this forum, highlighting in a very valuable way the array of alternatives open to government as it tries to deal with various issues.

First, however, I want to reflect on how we developed the current publicly-financed, professionalized, bureaucratic service structure which we have today. Then, I want to try to describe the range of public service options which exist, if only elected officials will try to use them. Lastly, I want to discuss some specific future steps which the Subcommittee may wish to consider.

The Growth of Public Service

It is not an accident that service expenditures have grown so much in the U.S. over the past twenty years. First, political forces such as the civil rights movement and elderly advocacy, have demanded from government at least symbolic responses to their needs. This has led to a proliferation of small service programs over the past two decades. Second, the fragmented and supposedly non-partisan bureaucracies we have established at each level of government have displayed the self aggrandizement typical of all bureaucracies (public or private) and often put their own interests ahead of those they serve by maximizing budgets and staff (as Tony Downs has pointed out.) Third, as long as our economy was expanding, it was easier to meet demands by allocating public funds than to readjust the rules affecting the private or community sector in different areas.

Yet, change is occurring. A fresh approach to problem solving is appearing among local public officials, community leaders and others involved in urban problems -- one which holds much promise for the future.

SRI Research into Alternatives to Conventional Services

Since 1977, SRI International, in cooperation with a number of public interest groups and Federal agencies, has been carrying out a program of research into ways in which local governments are addressing problems by using their governance powers to mobilize community resources in order to lessen the need for publicly-financed services. I would like to submit the enclosed report (funded by the Office of Human Development Services in the Department of Health and Human Services) as an example of this work.

The approaches being studied have been denoted "nonservice" approaches to emphasize their distinction from approaches in which the primary objective is to deliver publicly-provided resources--whether dollars, services, or goods -- to persons in need. Nonservice approaches, by contrast, seek to ensure that needs are met by using traditional governance powers (taxation, regulation, the ability to make changes in the way public agencies operate) in order to redefine traditional roles and responsibilities so as to encourage all sectors of the community to help meet local needs. Thus, nonservice approaches may involve mobilizing existing community resources in new ways to fill gaps in natural support networks (to enable the elderly to help each other,) altering legal relationships (such as those which allow the exploitation of tenants by landlords) or promoting changes in the way business and industry operate (e.g., hiring the handicapped.) All of these approaches are alike in that they do not directly involve the spending of public dollars to solve problems. Instead, they place government in the role of broker, mediator, or, in appropriate cases, protector of groups disadvantaged by some social condition.

Six categories of nonservice approaches have been identified:

- Regulation or deregulation
- Tax policy change
- Administrative reform
- Public-private collaboration
- Promotion of self-help
- Advocacy by the public sector.

These six types of nonservice strategies constitute a set of tools that local governments can use in a variety of ways to address social welfare problems:

- By influencing markets (for housing, child care, food, etc.)
- By altering institutional behavior (for example, the response of a utility company to a long-unpaid bill, the response of juvenile court to a truant, the response of a company to employee alcoholism.)
- By altering individual behavior (so that a family cares for a disabled person, a neighbor barters garden produce for laundry service, a landlord rents to a family with children, and the like.)

"Nonservice" approaches are not only important because they save public dollars. They also allow local governments to establish policies that, in many cases, can forestall problems before they reach the stage where government delivery of services is the only possible solution.

An example of a nonservice approach would be to instruct families how to care for elderly parents in their own homes, thereby allowing state and local governments to reduce the necessity for building institutional facilities for the increasing number of elderly population in this country over the next decade.

Similarly, changing local governmental code requirements and/or administrative procedures can help local businesses continue to operate or expand rather than create circumstances that impede their normal course of business.

We are convinced -- on the basis of documented studies involving over 75 cities and counties in every region of the U.S. -- that nonservice approaches can make a difference. Changing rules in ways that alter or redirect local market forces or rechannel social energies can allow local government to address such problems as the deterioration of local housing, neighborhood stability, business and industrial decline, and the gaps in natural support systems in new and effective ways.

Let me try to place nonservice approaches in context. Exhibit 1 illustrates the range of responses usually available to government to deal with a particular problem. As you move from left to right, the role of government grows. In columns 1 and 2, governments can only promote activities which have their real locus in the community. In columns 3 and 4, government usually helps most by deregulating. Columns 5 and 6 involve direction of the private and community sectors by the public sector, but they do not involve the wholesale takeover of functions involved at the end of the spectrum. The nonservice approaches listed on the left are most useful in energizing private sector and community action.

A SPECTRUM OF PUBLIC SERVICE OPTIONS

No Public Services — Full Public Services

Authority
- Regulation
- Administrative Reform

Incentives
- Tax
- Deregulation

Persuasion
- Public-Private Collaboration
- Promotion of Self Help
- Public Advocacy

Personal Action	Natural Support	Organized Self Help	Market Approaches	Leveraging of Private Resources	Contracting Out With Private or Non-Profit Sectors	Public Provision of Service
Individuals, Families & Organizations Naturally Are Able To Address Problems Without Any Outside Intervention	Natural Support Organizations (e.g. Neighbors Families) Help Families, Individuals, Etc. To Address Problems	Formally Organized Organizations, (e.g. Ngbhd. Org., Volunteer Group) Work To Help Individuals, Families, etc. To Address Problems	Public Agencies Use Governance Powers To Set Incentives or Disincentives To Influence Outcomes in Ways Which Address Problems	Public Agencies Use Financial Incentives or Disincentives To Induce Individuals & Organizations To Address Problems	Public Agencies Contract With a Non-Governmental Agency To Provide Services To Address Problems	Public Agencies Provide Direct Public Services To Address Problems
E.G. Build or Fix Your Own House by Yourself With Your $	E.G. Neighbors, In Laws Help To Fix Your House, Loan $	E.G. Community Organization Helps Home-Owners Get Financing	E.G. Anti-Redlining Strategy Induces Banks To Provide Mortgage $ to Homeowners	E.G. City Gives Homeowner a Grant or Loan to Homeowner	E.G. City Allocates Section 8 $ to Developers To Provide Housing Unit	E.G. City Builds or Repairs a Public Housing Unit
E.G. Disabled Person Transports Themselves	E.G. Family Members Provide Disabled Rides When They Need It	E.G. Volunteers Organized To Be on Call For Disabled Riders	E.G. City Makes Pick-up of Handicapped as Condition for Taxi License	E.G. City Pays Bonus to Taxi Drivers To Pick Up Disabled	E.G. City Contracts the Dial-a-Bus	E.G. Dial-a-Bus Program for the Handicapped

How important is mobilization of these sectors through nonservice approaches? Our studies do not indicate that nonservice approaches are "magic." Changing established rules and redefining roles is often harder than spending money.

Neither are nonservice approaches "free." They require staff to implement them (e.g., to rezone a declining neighborhood to encourage new housing.) Some, quite clearly, shift costs from one sector to another (e.g., by encouraging employers to provide childcare.) Yet, they often represent a better way of doing business than the traditional patterns of service provision we have gotten used to over the past 15 or twenty years.

Overall, nonservice approaches can help expand local government awareness and understanding of the full range of policy tools that are available for use in responding to problems. They offer local officials a viewpoint that rejects the common problem-solving approach, which relies solely on service delivery or income transfer. Instead, nonservice approaches suggest an alternative problem-solving approach that says: What are the policy tools and resources available to a given jurisdiction to address a given problem, and what can this city or country do to bring the private and community sectors into the problem-solving process instead of making this only a public responsibility?

Let me give some examples of the shifts in thinking involved in using nonservice approaches in different areas.

Categories of Nonservice Approaches

Regulation or Deregulation

The police powers provided to local government by the states represent tools with which cities and counties have traditionally pursued maintenance of the health, safety, and welfare of their constituencies. Nonservice approaches to regulation and deregulation are based on using these traditional local powers in ways that emphasize meeting social needs. Thus, through the intentional reshaping of local regulations, local governments can promote and marginally direct certain market activities, such as the protection of low-income housing stock (through down zoning), the provision of day care (through deregulation), or the elimination of discrimination against the handicapped in housing and employment (through local ordinances).

Tax Policy Change

The traditional purpose of most forms of taxation has been to raise money to fund services. Cities and counties, however, have increasingly recognized the nonrevenue implications of tax policy. Policies such as flexible tax collection (focused on large instead of small owners), tax deferrals for the elderly (allowing them to stay in their homes), and tax abatements to encourage residential rehabilitation, are being used to reduce the financial burden of the elderly, to encourage new investment in housing, and to reward continued residence in urban areas. Taxes are also being used as necessary disincentives (e.g., antispeculation taxes in vulnerable neighborhoods).

Administrative Reform

The management of local government involves numerous, ongoing acts of business and resource allocation. Local governments have recently become aware that they can purposefully hire disadvantaged residents, establish local procurement programs and institute more flexible use of public buildings.

Collaboration with the Private Sector

Private firms have several categories of resources that can be brought to bear on public concerns. These include direct giving, in-kind assistance (professional advice, loaned manpower, facilities, training), operations (hiring, scheduling, direct services to employees and the community, and design and pricing of products), and use of investment powers (site location/expansion, real estate investments), and related business decisions to aid local growth.

Local governments are working with firms to develop changes in corporate policy in all of these areas. Firms are helping to improve local government management in many cities, assuming certain service provision roles (e.g., counseling to employees, training in schools), shifting their investment practices (focusing on local capital needs), and collaborating in broad strategies to link community, local government, and private sector resources to meet community needs.

Promotion of Self-Help

Although America has a tradition of placing emphasis on the role of self-help and voluntary programming in meeting community needs, local governments have recently done little to facilitate this process. Increasingly, however, public decisionmakers are recognizing the significance of individual, neighborhood-level, and community organization approaches to directly meeting community development and social welfare needs. Self-help strategies focus on individual or small organization efforts to pool and benefit from personal resources. In many cities, community groups of all kinds are working both to directly address their own needs for housing, food, day care, or transportation and to form community organizations that set up systems when the private market fails.

Public Advocacy

This last category is especially interesting. Local governments have become increasingly aware of how they and their constituents are influenced by nonlocal policies. Consequently, cities and counties have become more aggressive in the use of their legal powers to deal with other levels of government and the private sector. Some jurisdictions have sought redress or inequities affecting their citizens through court suits. Public advocacy can also involve cities and counties using their inherent corporate power to lobby politically on critical issues at the state legislative level.

Some Areas Where Nonservice Approaches Might Be Promoted

Recently, under the sponsorship of the Ford Foundation, SRI hosted a meeting of 45 representatives of state and local government (representing such groups as the National Association of Counties, the U.S. Conference of Mayors and the National Governnors Association); private businesses; minority and community-based organizations (the Urban Coalition and the National Council of La Raza); plus foundations (such as Charles F. Kettering and Rockefeller) to discuss how nonservice approaches could best be used in the immediate future.

All of those present agreed that nonservice approaches were not panaceas; rather, they can provide a framework through which local actors could develop new and hopefully more effective solutions to community problems. Three special targets of opportunity were identified:

Planning for Block Grants

The Administration's plan to consolidate many existing federal programs into block grants provides an opportunity for state and local actors to develop nonservice roles for themselves. State and local governments will have to use their new flexibility to supplement expensive service delivery approaches with nonservice components -- e.g., self-help or private sector assumption of new responsibilities in ways which help meet the needs of vulnerable groups. However, unless such utilization is purposefully encouraged, much of the potential in this area will be lost in the fiscal strife which is likely to come.

Promoting Economic Development and Job Creation

Another major issue of concern at the conference was the promotion of economic development and job creation. In this area, nonservice approaches could either involve negotiations among public, private and community actors to achieve local objectives (e.g., tax tradeoffs for new jobs for low-income residents) or a range of local government policies aimed at improving the overall climate for local economic development.

There was a consensus that special efforts such as leadership training and the use of outside "brokers" would be helpful in promoting more effective local partnerships. Means of identifying and capitalizing on the common concerns of the public and private sector (e.g., the day care needs of workers) would also be useful.

Stimulating Neighborhood Development

A third issue discussed was neighborhood development. In a positive sense, nonservice approaches seem to create a greater sense of local self-reliance by tapping a fuller range of local resources and by more effectively involving local institutions and people in the problem-solving process. On the other hand, such approaches do not always contain the legal protection for the poor and disadvantaged often found in traditional government service programs.

Participants also identified the need for greater information sharing of existing approaches and recognized that there is still a wide array of nonservice ideas that have yet to be tried. As with the other issue areas, there was an expressed need for capacity-building among local actors so that they could take fuller advantage of the nonservice concept.

An Agenda of Next Steps

The wide interest in nonservice initiatives suggests that there are some common elements of action around which federal, state and local actors want to move forward with specific initiatives.

First, there is a need at the national level to help communicate and raise awareness about the basic nonservice concept among the local actors in the public, private and community sectors. This might best be done on a sector-by-sector basis by national groups (e.g., national business groups communicating with local firms) so that the message could be tailored in ways that were most appropriate to each set of local actors.

Second, there is a need to provide local communities with support for developing particular nonservice initiatives. Some source of help is required to provide the necessary resources -- financial, intellectual, technical, and other -- to local communities who need practical help in moving forward with particular nonservice agendas. Some communities will need special funding to support additional staff, special planning activities and new organizational efforts. Others may need training in leadership development and in making the transition to new roles. Many local actors will need help in strengthening their analytic and bargaining skills. In many places, a third party facilitator, negotiator or broker may be required to help local actors in a community come together in developing new initiatives.

Lastly, there is a need -- and this is where today's forum is so important -- for national leadership to encourage every sector of society -- public, private, and community -- to help solve our most pressing problems. Conventional services, of course, must continue to be strengthened; new alternative services must be tried; and what we call nonservice options must be used more purposefully. Emerging new legislation must reflect both service and nonservice perspectives and departmental guidelines must reflect similar concerns.

Mr. Chairman, this concludes my formal statement. I appreciate the opportunity to present this background and I look forward to hearing the participants to follow. Should there be questions to answer or clarification to be made, I would be pleased to respond.

Thank you.

ALTERNATIVE APPROACHES TO COPING WITH A SQUEEZE ON PUBLIC ACTIVITIES

Testimony of Anthony Downs before the Senate Intergovernmental
Relations Subcommittee Forum on Alternatives to Public Service
Delivery, Washington D.C., July 28, 1981

Introduction

Governments at all levels are now caught in a squeeze between two conflicting forces: the unwillingness of their citizens to continue paying high taxes, and the desire of those same citizens to keep receiving many services now furnished by the public sector. My testimony seeks to explore alternative governmental responses to this squeeze--especially at state and local levels.

My qualifications for discussing this subject are based upon over 20 years of analyzing government activities, and providing concrete advice as a consultant to various governments in solving problems connected with housing, land-use, and real estate. I have written two books on government decision-making entitled An Economic Theory of Democracy and Inside Bureaucracy. I have also advised dozens of government agencies at federal, state, and local levels concerning provision of various types of services, and even more dozens of private firms concerning their provision of services. A statement of my background has been provided separately. Although I am now a Senior Fellow at the Brookings Institution, this testimony expresses only my own views, not necessarily those of the Trustees or other staff members of the Brookings Institution.

Ironically, the basic conflict mentioned above arises partly because our governments have succeeded to a significant degree in achieving certain widely-accepted goals related to public services. Examples are providing greater equality of public services to areas and persons with different resources, and keeping the compensation of public workers comparable to that of private-sector workers, regardless of their relative productivity. Therefore, efforts to resolve this basic conflict may require sacrificing some valued past achievements of these goals. In particular, such resolution may require moving away from qualitative and quantitative uniformity of services received among areas with different incomes or other resources.

Six Possible Strategies for Coping with the Squeeze

Governments at any level can respond to this squeeze by using six different basic strategies, or some combination of them. They are as follows:

1. Raising taxes in spite of citizen resistance. This could involve adopting taxes that are harder to perceive (such as value-added taxes), raising taxes that fall on non-residents (such as city government taxes on hotel-room usage), speeding up economic growth to generate more tax revenues, co-opting more people into the public sector to increase the political base of support for public spending, or convincing people that the nation faces an emergency requiring higher taxes and more public spending.
2. Reducing the services received by the public. This would mean having public agencies either produce or manage the production of fewer real goods and services, or decreasing the size of transfer payments now flowing through the public sector. The Reagan Administration attempted to exempt certain "safety net" transfers from such decreases in its first cutting of proposed budget increases. But the even larger cuts in proposed spending increases required in later rounds will force it to consider reducing these transfer programs too.
3. Producing the same services or transfers with fewer inputs or lower-cost

inputs. This involves improving the efficiency of such production in some way. There are at least three tactics for accomplishing this, as follows:

a. Increasing competition among the suppliers of these services. This is the classic economic tactic for improving both innovation and efficiency. One way to accomplish it is to increase competition among service providers *within* the public sector--for example, by allowing parents to send their children to any one of several public schools within commuting distance from where they live. The existence of many individual suburban jurisdictions "competing" for residents and business properties is one form of such competition. Another entirely different approach is giving households the public funds now used to pay for some service provided by government bureaucracies, and allowing those households to procure that service on the market from anyone they wish--including private suppliers. An example would be giving parents vouchers for schooling and allowing them to send their children to either public or private schools meeting certain minimum educational criteria. Such use of vouchers for housing allowances has been accomplished on a large scale in recent experiments with federal funds. All these forms of increased competition can only be accomplished if the consumers of the services involved have the choice of diverting the public funds used to pay for those services to suppliers other than those that now serve them. This amounts to what the Citizens League of the Twin Cities calls the power to "exit" their present suppliers.

b. Reducing the relative compensation of government employees. If public workers are paid less than private ones, or if the rate of salary increase among the former is lower than among the latter, then the relative cost of producing public services should fall, assuming efficiency of production does not decline. This in fact occurs whenever public workers receive lower percentage pay raises than private workers. Moreover, the real cost of public workers is reduced whenever their pay increases more slowly than the general cost of living, as has occurred quite often recently.

c. Improving managerial efficiency within the public sector. Such greater productivity is what government officials themselves say they can attain when confronted by the squeeze mentioned earlier. No doubt, every bureaucratic organization's performance can be improved somewhat. But long experience indicates that just exhorting people to be more efficient does not work very well, unless the incentive structures they face reward more efficient behavior, and penalize inefficiency. But most civil service arrangements do just the opposite. They prevent officials from firing workers who are not industrious or effective, or from increasing the rewards of those who are. True, when pressures to improve effectiveness and efficiency become acute enough, and officials have their backs to the wall of retrenchment, some increases in performance can occur. Sometimes a large "reduction in force" may even cause the remaining public workers to perform their tasks more efficiently, partly because their work-loads have risen. But I am skeptical that this tactic can fully compensate for the squeeze that most governments are in today, even though it is the one most often recommended by public officials themselves.

4. Tightening linkages between those who benefit from specific public services and those who pay the costs of those services. Making these two groups as identical as possible would reduce government

redistribution of resources among different groups. That would in turn decrease the number of persons who clamor to receive services for which they are not willing or able to pay. User-payment financing is one example; cost-sharing in medical care programs is another. Also, if both the provision and funding of services are shifted downward from broader levels of government to smaller ones, then the persons receiving those services will be more likely also to be the taxpayers paying for them--and to realize that fact. Such shifts increase incentives among service recipients to restrict their consumption to those services they believe are "really worth" the taxes needed to finance them. These shifts also create incentives for the users of services to pressure the providers to be more efficient. Hence this approach may cause a reduction in quantity of services provided, or change their nature or the efficiency of their provision. However, where most poor households and most non-poor ones live in different political jurisdictions--as in most U.S. metropolitan areas--this strategy is inappropriate for services that inherently require redistribution of resources from the non-poor to the poor. An example is providing a minimal education for all children for the general benefit of society, as well as the private benefit of the children.

5. Shifting the PROVISION of services to the people who use them. An example is people using their own money to buy trash-removal services directly from private vendors, instead of paying taxes to a local government agency that removes trash. Such shifts do not inherently reduce costs, but they do make it easier to introduce competition into service provision. Presumably, that will reduce costs in many cases. In Great Britain, volunteers drive minibuses to provide public

transportation in an area that could not afford to continue paying drivers. Much of the building inspection in France is done by technicians hired by private insurance companies, rather than by municipal employees. Other possibilities for such "self-help" activities are housing rehabilitation, day-care for children of working mothers, and neighborhood clean-up activities. This approach differs from giving consumers public funds and allowing them to procure services on the open market, since no public funds need be involved. Hence this approach is more applicable in areas where residents have sufficient incomes to pay for services than in very poor areas. It also offers opportunities to shift more power to neighborhood groups, though that is likely to be opposed by city agencies. Also, this approach need not be done on an "all-or-nothing" basis; consumers might furnish some services themselves coordinated with other services either provided by public agencies or paid for with public funds. An example is neighborhood residents providing anti-crime surveillance patrols in cooperation with the police.

6. Changing the nature of the services provided so they require fewer or less costly resources. This is not the same as increasing efficiency, which means reducing inputs per unit of any given output. Rather, this approach involves changing the outputs themselves so the same needs are being satisfied, but in ways that require fewer real resources, or use less costly inputs. Ted Kolderie has called this approach "redesigning services" (although that term also encompasses changing methods of financing services without altering the services produced, such as shifting to pre-paid health care). An illustration is shifting health-care funding from emphasis upon "crisis care" in hospitals to

emphasis upon preventitive activities, often using self-help or group reinforcement methods. Examples are support of behavior-modification diet and weight-loss training, anti-smoking campaigns, promotion of exercise, and auto accident prevention. Another illustration is having private firms furnish commuter vans to their employees, who drive those vans in car-pools rather than relying on public transportation or their own cars. This reduces the amount of costly land those firms must devote to employee parking. Moreover, insofar as such van-pools replace public transportation, people substitute their own unpaid labor as drivers for the costly services of unionized public employees. This is analogous to patrons of supermarkets providing their own labor in choosing products, transporting them to the check-out counter, and delivering them home. This example also illustrates the preceding strategy: having those who receive services provide them with their own funds. (In fact, many specific tactics combine more than one of these basic strategies.) However, large-scale substitution of private van pools for public transit might leave persons who are unable to drive and also do not work for firms with van pools with greatly reduced mobility. Re-designing services is probably the most intriguing of the six strategies listed here, but it is also the most difficult to illustrate with examples already being carried out.

Because the first two of these six approaches involve no basic change in the nature of the services provided, I will not discuss them further in this testimony. Instead, I will focus on the last four.

Key Factors Relevant to Choosing Among These Approaches

It is clear that most governments confronted by the basic squeeze mentioned earlier will use several or all of the above approaches to some degree. Such diversity will reflect both the differing circumstances of specific governments, and the varying appropriateness of these strategies to specific services. The following paragraphs discuss certain key factors I believe will be highly relevant to the selection of approaches under most circumstances.

Bureaucratic Inertia. Large bureaucratic organizations rarely change much because of purely internal factors. Rather, major shifts in their behavior usually occur only when they are strongly pressured from outside by threats to their privileges or even to their continued existence. Hence simply exhorting governments to "improve productivity" or "increase efficiency" is not likely to help them cope with a squeeze on their resources. This means much of the initiative for major changes in public service delivery must come from outside of government agencies themselves. Citizen groups and potential private suppliers of now-public services are among the "outsiders" who might initiate such pressures. For example, private mortgage insurance companies are now pressuring the federal government to minimize the future role of Federal Housing Administration mortgage guarantees. High-level elected officials, such as mayors, may also be "outsiders" in relation to specific agencies within their administrations. Thus they may be able to pressure the latter to change by threatening them with severe resource deprivation. This view of bureaucratic inertia is partly based upon my belief that most government bodies in a democracy are basically "reactors" to outside pressures, rather than innovators or initiators of new ideas.

However, insofar as the current squeeze on public agencies threatens them with a severe loss of income or personnel, it may stimulate significant innovations in itself. If such innovations are to remain effective over long periods, they should involve changes in the structure of incentives facing individual public employees and officials. These are difficult to design and implement within existing civil service laws, but efforts to change them should be attempted.

Impacts of Inflation. The most widely-recognized impact of inflation upon the public sector has been the relative expansion of total national resources flowing through the federal government. This has resulted from "bracket creep" within the progressive structure of federal income taxes. But inflation can also be a mechanism for reducing the real role of the public sector in a relatively imperceptible way. This occurs whenever public spending increases more slowly than the general price level. This can happen either overall, or in relation to specific types of public services. From 1970 to 1975, total state and local purchases of goods and services measured in 1972 dollars rose 20.5 percent; but from 1975 to 1980, they rose only 7.4 percent. In contrast, federal government purchases of goods and services in 1972 dollars fell 11.9 percent in the first period, but then rose 11.0 percent in the second period--though they were smaller in 1980 than in 1970 (even though federal transfers were much greater). Some governments have used inflation as a means of reducing the real costs of specific programs. They leave dollar spending levels the same or raise them only slightly when prices in general are rising rapidly. For example, New York state has greatly reduced its real welfare spending in this way since the mid-1970s. This tactic is currently being used by many governments at all levels to cut the real wages of public employees, which form the largest of all public sector costs.

In fact, one of the social benefits of inflation is its ability to reduce the real incomes of millions of people in a socially acceptable manner when that seems necessary--as when financing a war or paying large sums to OPEC. This ability springs from the "money illusion" that nominal prices and wages are true representations of real prices and wages. If those same people were asked to take nominal wage cuts so as to keep the general price level stable while reducing their real incomes, most would undoubtedly refuse to do so. In theory, they might accept such nominal wage cuts as part of a single nationwide program that hurt everyone to the same degree. But designing such a program that everyone would accept as "fair" is impossible in practice. Yet people will accept real wage cuts with minimal social protest when those cuts are disguised as nominal wage increases, as recent experience proves. Democratic governments are prone to using inflation in this way because, as Charles Schultze has pointed out, one political principle they usually follow is to avoid doing direct harm to their citizens when it can be perceived as such. If inflation continues at close to double-digit levels, governments will continue to use it to reduce their real costs, although doing so will probably provoke increasing labor problems in the public sector.

Public-Sector Employees and Their Compensation. A large part of the increase in public-sector costs during the past 25 years has been rising compensation for public employees. Significant increases in their nominal incomes have enabled them to raise their real incomes too, regardless of whether or not their productivity has risen commensurately. In many areas, public employees' incomes have risen faster than those of the privately-employed citizens being taxed to pay them. This has resulted in a redistribution of incomes from taxpayers to public employees, often within cities where many taxpayers have lower incomes than the average public employee.

In state and local governments, public employee wages are almost always the largest single cost. Such wages are a much smaller share of federal spending, but still significant. So almost every government's strategy for coping with the basic squeeze described earlier effects the welfare of public employees, and is related to their bargaining power within that government. Public employees--especially when organized into strong unions--will usually try to capture any increases in resources made available to each government as higher wages, even if they are not improving their productivity to offset the resulting higher costs. As a result, government officials may attempt to conceal such increases in resources to use them for expanding services rather than just raising wages. When this situation arises, as it has in New York City, explicit public planning of municipal finances is difficult. High-level officials are almost compelled to conceal the truth about how much money they have available until the last possible moment. The result is a series of quasi-fictitious financial estimates usually showing large deficits until some last-second maneuver produces an ostensibly balanced budget. If key officials did not engage in such tactics, public employee unions would claim all available "surpluses" to meet higher wage demands.

This tendency of public employees to capture additional resources has eliminated many predicted economies of scale from consolidations of small governments into larger ones. Such consolidations often involve merger of governmental units with unequal pay scales. These "inequities" are usually resolved by "equalizing up"--that is, raising the pay levels of all employees to the highest previously-existing levels. The resulting increase in costs tends to offset any economies of scale from the merger. If this consolidation process is reversed by shifting service provision from large, higher-level government bodies to small, lower-level ones, this may reduce the bargaining power of public employee unions. Over time, it will also tend to produce different levels of compensation among those small, lower-level agencies, and even different levels and qualities of service, as they adopt varying tactics for service provision.

It is likely that only major economic threats to the welfare of public employees--such as the possibility of losing their jobs through large reductions in force--will cause them to accept changes in public-service delivery that decrease their relative roles in society, and perhaps their relative levels of real compensation compared to the private sector. To increase their willingness to accept these changes, they should be given meaningful opportunities to participate in the redesign of public services, and major roles in those redesigned services. For example, where neighborhood groups start providing large parts of their own services, they could be trained or coordinated by present public workers acting as skilled cadres. Also, it may be sensible for public employees to accept relatively lower levels of real incomes than private-sector employees if the former in fact enjoy greater job security, greater pension benefits, and less pressure to constantly increase their productivity.

Avoiding Temptations to Penalize the Poor. An apparently major motivation underlying the current "taxpayers' revolt" is a reaction by both middle-class and working-class voters against perceived governmental redistribution of incomes from them to the poor. Many of these voters resent federally-funded programs that provide income, in-kind benefits, and public services to poor households far in excess of the ability of those households to pay for such items. Many of the six strategies described earlier could also be used to reduce present redistributions of resources favoring low-income households.

For example, consider the idea of "exit" extolled by the Citizens League as a means of increasing competition among service suppliers. One form of this strategy involves shifting one's patronage from one local govermment to another (it is not the only form of "exit," but is an important one). But this requires that households be able to move among jurisdictions, taking with them the resources with which to purchase services in areas where other suppliers are available. Non-poor households have sufficient private incomes, wealth, and real property to provide such resources either directly, or indirectly in the form of tax bases accessible to local governments. But poor households do not have such private resources; hence they can afford to purchase services from alternative suppliers only if they receive public funds to do so. Examples are vouchers with which they could purchase adequate housing (as in housing allowance programs), food (as with food stamps), medical care (as in Medicare and Medicaid programs), or other services. Thus, poor households can employ this type of "exit" only if they can take publicly-supplied funds with them when they move or shift suppliers.

However, a widespread strategy of middle-class households for segregating themselves spatially from the poor has been creating economic barriers to entry in many suburban communities. These barriers consist of zoning laws, building codes, and subdivision ordinances that raise the cost of living in such communities far beyond what poor households can afford--even though those laws also go far beyond the requirements of health and safety. Such barriers are deliberately designed to prevent the poor from "exiting" out of central cities to share in the high-quality services in those communities. Under these conditions, a shift of service-provision downward from large, high-level governments to smaller, lower-level ones would make it more difficult to finance services for the poor with taxes upon non-poor residents of the same jurisdiction. In fact, "upward" shifts of funding for local services--for example, employment of state funds to finance public education--have been deliberately used during the past two decades to create greater equality of service provision among residents of areas with widely varying incomes, wealth, and property tax bases. Reversing this trend with "downward" shifts of similar services might undo many of the advances achieved through this strategy. I believe this possibility should be taken into account in considering any service-provision shifts. They should be designed so as to avoid reducing equality of opportunities among unequal groups concerning access to basic social and other services.

In reality, local and even state governments are not good vehicles for redistributing incomes; that ought to be mainly the responsibility of the federal government. Local and state jurisdictions that tax their relatively affluent residents heavily in order to aid their poor residents may simply cause the former to move elsewhere--especially to nearby jurisdictions that are politically dominated by relatively affluent households. It is much less convenient to move out of the jurisdiction of the federal government. So income redistribution should be accomplished with funds raised through federal taxes, though they can be distributed by state and local governments. However, using federal block grants to fund services provided at state and local levels is not an effective way to engage in such redistribution if the total amount of funds is greatly reduced as part of the process of shifting to such grants.

Trying to Reverse the Over-Professionalization of Services. One aspect of the basic conflict being analyzed here concerns what Ivan Illich and John McKnight have called the "over-professionalization" of modern societies that occurs under both capitalism and socialism. To an ever-greater extent, professional service providers are trying to carve out domains in which they simultaneously act as quasi-monopolists on both the supply and demand sides of the "market" for certain activities. On the demand side, they define people's "needs" for some type of service and label those who do not have that service as "deprived" or "poor" in that respect. These definitions are supposedly technical in nature, but in reality are often based upon highly-debatable value judgments. On the supply side, these professionals set very high-quality standards for such service designed so only they can meet those standards. These standards are also supposedly based upon purely technical considerations, but frequently involve highly arbitrary value judgments. Then the professionals often try to establish third-party payment schemes for financing provision of these services with public funds. Those schemes reduce incentives for the recipients to economize on such services, thereby allowing the professionals to expand their domains and capture high monopolistic rents for their services. The most common third-party payment schemes in the United States are associated with hospital care. Hence many professionals try to define their services as "therapy" and place them under the umbrella of hospital services.

A recent example is the attempt at a large Midwestern university to train "grief therapists" to help people cope with the deaths of people they love. No doubt, such deaths produce serious traumas for many survivors. But up until now, most people have not realized they needed professionally-trained persons to cope with these problems, since doing so has long been a normal part of family and religious life. But we may soon find it funded under hospital insurance. We may also discover that persons who do not receive it are defined as "deprived" by this new profession, and can sue public agencies to get their "fair share" of this service at taxpayers' expense. Moreover, friends, ministers, or family members trying to console others concerning death might even be considered guilty of a legally-defined crime of practicing this "profession" without "adequate training" or a professional license! I may be exaggerating--but only slightly!

One of the most pernicious effects of such over-professionalization is that it increases dependency among both poor and middle-class citizens. They are persuaded both to feel more dependent upon others for "vital" services, and to devote more of their incomes to paying professionals for services they might very well provide for themselves or for each other, or not consume at all. One of the key psychological attributes of poverty in modern societies is feeling helpless to control one's own destiny. So such over-professionalization may actually intensify poverty in modern societies rather than reducing it.

Most attempts to redesign public or private services to increase the roles of the beneficiaries themselves in providing those services are movements away from such over-professionalization. They usually also involve movements away from "hidden" payment systems toward more explicit linkage of receiving services on the one hand and bearing their costs on the other. Hence such attempts at service redesign comprise an almost revolutionary change in direction concerning the basic social structure of modern industrialized societies. There are some signs of increasing desires and abilities among people in our society to provide their own services, rather than relying on professionals. Examples are jogging and exercising to improve health, Alcoholics Anonymous and other self-help groups to combat addictions, and increased use of neighborhood patrolling to halt crime. But most such activities are still on the fringes of our society, and have hardly reached mass service scales. Therefore, a key question for the future is: to what extent can we deliberately accelerate the tendency for people to help themselves rather than rely on professionally-provided services--in spite of the opposition of the entrenched professionals?

The Roles of Neighborhood Organizations. Provision of services by neighborhood organizations represents an intermediate form of shifting service provision from existing public agencies to individuals or households themselves. Moreover, in many relatively disorganized neighborhoods, especially very poor ones, the possibility of residents experiencing greater participation in truly significant local decision-making and action might improve their self-images and give them more positive attitudes towards government. However, there is an immense diversity of both needs and capacities to act among neighborhoods, even within each large city. Hence is it not really practical to try any uniform devolution of service-provision to the neighborhood level across the nation, or even in all parts of any large city. Rather, particular, unique "treaties" between existing public agencies now providing services and neighborhood organizations that could provide them in the future are needed. These treaties would vary greatly from neighborhood to neighborhood within each city. Residents of most neighborhoods are probably quite satisfied to continue receiving services provided by existing public agencies. But in other neighborhoods, provision of some services might be improved by shifting it to local organizations.

Such a diversified approach raises difficult legal, political, and technical issues. Legally, how can very different qualities and quantities of service be provided by a single government to residents of different neighborhoods within its boundaries? Politically, what incentives will motivate local bureaucrats to give up any of their existing powers or authority to neighborhood residents? Technically, how can certain services--such as public education and police protection--be efficiently delivered city-wide if each neighborhood "does its own thing?" None of these questions have easy answers. Yet that should not discourage us from exploring these issues in order to permit neighborhood organizations to play greater roles in future service provision within many large cities.

Conclusion

Carrying out the last four strategies for coping with the current squeeze on public activities would require a fundamental change in direction for many current public policies. It would involve moving away from centralized, professionally-provided, indirectly-financed, and relatively uniform service delivery systems towards new arrangements that embodied less of these traits. Ironically, many major public policy efforts of the past few decades have sought to achieve precisely these traits. Moreover, many other societies throughout the world are now struggling to increase the prevalance of these traits in their institutional arrangements. In fact, increasing their prevalence in our own society would probably better serve many of our citizens--especially the poorest and most deprived.

Yet long-range future trends may very well favor such a reversal in recent tendencies concerning public service provision. Those future trends may involve greater individualization, or community differentiation, of many services and aspects of life, rather than greater standardization. They may also involve greater action by citizens to improve their own lives and help each other, rather than increasingly relying upon "professional experts" to do so for them. True, such blossoming of diversity would have to take place within the framework of our unifying national culture and the many commonly-experienced elements in our giant "electronic village." But increased diversity within a common framework is certainly a possible goal, and probably a desirable one--if it can be achieved without unfairly penalizing the poor and deprived members of society.

Thus, the challenge is to allow for such greater diversity of services without reducing the minimum quality of life for any citizens, and without sacrificing the tremendous advances towards greater equality of opportunity our society has made during the past 40 years. Meeting that challenge will not be easy. As usual, the problem is achieving a proper balance between several desirable goals that conflict at the margins. But it is probably time to give much more serious consideration to alternative ways of providing many public services than we have in the past, even though that involves some radical changes in how we think about such services.

TESTIMONY OF TED KOLDERIE
BEFORE THE SENATE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
JULY 28, 1981

Mr. Chairman, thank you for the opportunity to appear today. It is good to see the Senate taking this new approach to the problems of our communities. The federal government has long recognized that with the exception of delivering the mail--it does not itself run the services and systems "out there" in the states. But for too long it has viewed those services and systems purely in governmental terms. . .concentrating, then, on the relationships between and among those levels of state, county and municipal government.

The truth, of course, is that in all of the systems most of the people involved, and most of the facilities and most of the dollars, are non-governmental. Most of the drivers and most of the vehicles, in transporation. Most of the housing units. Most of the doctors and most of the hospitals. It is good to see this Subcommittee, now, beginning to look at the relationship between the governmental and non-governmental elements of the "system out there", through which the work of operating this country really gets done.

We don't need to spend much time today talking about the problem. Money is tight, for the public sector. . .and likely to remain tight for some considerable time.

This is not necessarily a hard problem for governing bodies to solve. Everyone knows you can save money by doing less. Cut hours of operation. Cut benefits. Cut maintenance. Cut the increase in state aids. Sometimes this requires staff cuts; but often these can be minimized. . .and are. Purchase-of-service contracts tend to be cut before staff. And attrition is preferable to outright layoffs. We are frequently cut first and most sharply are the services and benefits that go to people. This makes the decision a little less painful for the public agency. And it sometimes also arouses the public. . .causes recipient groups to challenge the tax-reduction groups; and stimulates interest in getting funding for programs restored.

But in neither case. . .when programs are cut, or when funds are restored. . .is anything much about the service changed. It's "more." Or "less." But not "different."

What were talking about today, of course, is precisely the strategy of making things different. We're looking for ways to translate the generalized fiscal pressure on the public sector into genuine efficiencies. Into new and different ways of getting people trained, educated, housed, protected and transported to work.

This seems to be emphatically what the public wants. As Everett Carll Ladd of the Roper Center is Connecticut will tell you from his look at opinion surveys, the public is disenchanted with government. But, he warns, no one should conclude from this that the public has given up its desire for a "high-service State." It simply wants that State to work better.

The questions we have to consider, is "How?" Let me try to sum up for you what I think I've learned, in 10 years of wrestling with this problem.

There is one overwhelming, central conclusion. Do not hire a bunch of people to sit around in a research shop, trying to think up new ways things could be organized. Most of the time they won't succeed. And even if they do come up with a good new idea, there remains then the problem of forcing that into an unwilling public-service organization. Little will come of such a strategy.

The approach, instead, must be to arrange things in our public sector so that the people now involved. . .the elected officials, the citizen-consumers and, so far as possible, the managers of the agencies. . .are given some incentives, to start with. Are given opportunities, that is, to do better for themselves if they make the system work better. To earn more. To see their operation grow. To become famous. Or, as a consumer, simply to get a better product.

In Minnesota we have a habit of telling state legislators that their job is not to make the decisions. Their job, uniquely, is to make the *system* that makes the decisions. Much the same applies here. . .as we think about public services. Do not try to make the decisions about what the services will or should look like. Rather, make the system work in such a way that those in it will come up with innovative ways of doing things.

This is a central point because by and large our public sector is not set up this way now. The essential function of government is policy-making: deciding, for example, that the community should have a world-class speed-skating track. It is not the *essential* function of government then to *do* what it has decided should be done.

It may. Indeed, it frequently does. At the start, that seems easy. It's fun. It may even seem cheaper: No profit or taxes to pay. And city councils are easy marks for the argument that they can control something better if they own it themselves. . . as their administrative officials often do argue.

Only later do the problems emerge. The wrangling with employees, and the politics of administration. The swamp of detail, that always seems to you from getting to other major policy matters. The fundamental conflict of interest, when a city council becomes both buyer and seller. . .committing yourself, permanently, for something you have declared is publicly needed, to a sole source of supply. . . which is your own administrative bureau and which--knowing you have left yourself no options--has little fear of failure and therefore little incentive to be efficient.

This is the key lesson: Not to get caught with a monopoly provider. The same lesson we follow in our personal lives. Rather, to keep your options open to move to some other providers for at least part of the service you require. This means they will all be at risk. It means they will all have opportunities to grow. And therefore means they will have an incentive to do better.

The first rule about winning is not to lose. So the first thing to do is to be sure that more services do no inadvertently slide into this monopoly-public-bureau pattern. This is not an idle concern. We did just this in Minnesota 10 years ago: deliberately setting out to create a region-wide monopoly for our newly-acquired public bus system. In Saint Paul, there has been effort after effort --

until recently -- to transform an open, competitive refuse-collection system into a regulated monopoly. And there is always pressure to provide "early childhood education" simply by extending the existing public-school system downward from age 5 to age 3.

If we hold on this, we can start looking for ways to introduce more options. . .more diversity. . .more choices. . .into the systems where sole-supplier arrangements are causing substantial problems, with cost or product quality.

The first thing is simply to remove prohibitions, where they exist, against alternatives. We had a famous case of this in Minnesota. In the 1930's a group of people around the University wanted to form a pre-paid medical group practice. The attorney general at the time said that, in the absence of any law specifically permitting it, they couldn't. Twenty years later, they asked another attorney general. This time the answer was that, in the absence of any law specifically prohibiting it, they could. So they now have the biggest "health maintenance organization" in the region, and are part of a gradual but fundamental re-design of the medical care system locally and nationally, away from fee-for-service practice.

Another effective device is to change the flow of revenue into a public system. In the Twin Cities area we subsidize the bus system. The money goes from the state directly to the Metropolitan Transit Commission. Not surprisingly, the MTC spends the money on itself. The MTC, like most traditional transit systems, has a high cost-structure. . .so that, as its chairman has said, "when it comes to suburban service, we kill everything we touch." What the Legislature did this year was to permit the outer ring of suburban municipalities if they wish to "opt out" of the MTC service area. The property tax for transit would, however, still be collected. The money would be turned over, instead, to those suburban cities. They would use it to buy transportation for their residents. . .from taxi firms, from charter operators; perhaps even from the MTC, if the price is right.

Where political obstacles make this difficult, one possibility is to change the "buyer" -- from elected officials to the citizens themselves, individually or (as in neighborhoods) collectively. Today, we buy food for people. But the government does not run the stores or select the stores. The consumers do that with public food stamps. That system is not without its problems. But it does not have the problems that go with running commissaries; or with vendors competing politically for the business.

In general, we might want to look for more opportunities to fund users, rather than vendors. The people at RAND Corporation have been working a lot on the design of user charges, and you will be hearing from them.

It just really is not all that complicated. Where public funds are involved, move them through consumers wherever possible; on improved formulas of need and ability to pay. Where the government is to be the buyer, let it be just a buyer, not an operator; and teach it how to be a smart buyer, working as skillfully as intelligent highway departments always have to make certain there is maintained a diverse and competitive contracting industry to produce the service the public is going to buy.

We should be aware of the fascinating opportunity that our multi-level federal system offers, to implement this strategy.

It is hard to persuade any single unit of government, long accustomed to running schools, or sanitation departments, or transit systems, to drop out of operations and to accept the radical new idea that "providing" a service does not have to mean "administering" the service. On the other hand, it might be possible to get municipalities and counties to specialize their roles. . .one buying, the other producing. That was the essence of the example I mentioned earlier, in which our Legislature will let the municipality become the buyer of transportation and specialize the regional special district--the MTC--as the vendor. Similar arrangements ought to be possible between municipalities and counties. Especially if the Legislature--as "the people who make the system" -- require it to be done that way. (You at the national level, generally, should think much harder about this kind of use of the power of state law-making. The federal government has thought far too much of states in terms administrative programs; and focused too much on governors and too little on state legislatures.)

Some of the biggest obstacles to all this strategy of re-designing the service system are the attitudes in our own heads. The problem in other words is not our ability to open up the system to new ways of doing things, but not willingness to do so. Let me explain, with a few specific examples.

It would require, for one thing, giving up our cherished old bugaboo about "avoiding duplication" in the public sector. To the extent this has been a battle cry in the civic-reform movement in which I've worked, I hereby confess my sins, and repent. It has legitimized the monopoly which is now the source of much of our problem. It has cut off choices; and stifled innovation. We need to get over this obsolete idea. In particular, the business community needs to see that. . .while "no-duplication" may be a good principle in structuring a business firm. . .it is not the principle they would use in structuring an industry. We should approach the problem of re-structuring government on the fundamental principle of always keeping your input markets competitive.

Another attitude that makes "options" difficult is the way so many of us think about "accountability." It's true that accountability is important. It's not true a formal, political relationship to the sponsoring governmental agency. What does it, practically, mean to tell the parents in a low-income neighborhood that if they do not like their school, or the state-aid formula, they can go and change the school board or state legislature? What will make the school responsive and accountable is to make it possible for those parents to "exit" to a school that does a better job.

Third, we need a new attitude on the part of public boards generally about the possibility of changing things, in the face of opposition. Opposition does not necessarily mean defeat; it simply means a battle. Certainly, it is no excuse for trying. And I have been astonished how little public bodies try. Typically, when I ask school boards what they put on the table as bargaining begins, the answer is, "Why, nothing." Two years ago, when our transit contract went to arbitration, the arbitrator was so shocked by what he saw that on his own motion he gave the MTC an authority it had not asked for: the right to hire part-time drivers.

Fourth, a lot of people will have to get over their attitude that it is illegitimate or somehow immoral for services--particularly, human services--to be produced by a for-profit organization. The truth is, as a moments reflection will demonstrate, that by and large the necessities of life are organized in a for-profit mode: food, shelter, clothing, and medical care. I am really not so worried about this. The real problem, as quick thought about our energy debate suggests, is probably scale. Small businesses are fairly well accepted. . .and my own observation suggests that much of the redesign of public services is likely to come through the enterprise of small businesses rather than large coporations. Once started small, it's all right if it grows big: Greyhound began as a little bus line shuttling people around among the small cities on the Minnesota Iron Range.

Fifth and finally, we ought not to feel bad if we don't start with the hardest cases first. Entrepreneurs, being practical people, will tend to start where the market is ready, which means with people who have money. This permits them to develop the strength then to achieve efficiencies that in turn permit them to broaden the market to people who have less money. This is the way automobiles were introduced and spread; and refrigerators; and washing machines and television sets.

These are a few, brief observations, about a most complex question. Gradually, the central concepts of this new strategy for the public sector are coming clear. We have been through this kind of transition before, in the country. There was a time when we introduced and ran an explicit anti-monopoly strategy for the private sector. And there was a transition in the household, away from maids and cooks and gardners and painters to a whole new system of supported-self-help.

We cannot make the public system change. But we can induce it to change, . . .by opening up opportunities for others to come into the field, who will be useful and rewarded if they do things better. This transition, like the others, will be experimental. . . and gradual. The important thing is to get started.

Senator **Durenberger.** We are now going to pick on Anthony Pascal, who is senior economist with the Rand Corporation. Just by way of background—I won't try to background Tony—the Rand Corporation held a conference in April of this year entitled "Prospects of Local Government Coping with the New Fiscal Environment," which was funded primarily by the Ford Foundation. Tony chaired that conference.

We welcome you here. You have the same time limits, and your full statement will be made part of the record.

TESTIMONY OF ANTHONY H. PASCAL, RESEARCH STAFF MEMBER, THE RAND CORPORATION, SANTA MONICA, CALIF.

Mr. **Pascal.** I want to thank you, Senator, for inviting me here. I am happy to be able to share some thoughts with you and the other panelists. I, too, have to offer a disclaimer—these being my own ideas and not necessarily those of the Rand Corporation. I can't understand, however, why any reasonable person wouldn't agree with them. [Laughter.]

I don't have six strategies or 10 approaches. I want to offer just one, and it has little to do with who produces the services we have been discussing. What I am interested in, for the moment, is how we finance the services, how they get paid for. The real question is how governments might finance themselves in the era of fiscal austerity we are entering. I think the only solution is to begin charging citizens for the public services they consume. With some imagination, I believe governments can install benefit-based financing and still protect the interests of low-income interest groups.

As the Senator mentioned, we recently held a conference at Rand with major support from the Ford Foundation. About 120 State and local government officials, interest group representatives, and researchers attended. Most of the presentations and discussions revolved around questions of local government financing in an era of fiscal austerity. If I were to summarize the central conclusions, they would run as follows:

(1) That the growth in the tax base for local governments has largely peaked, where it has not actually contracted as a result of fiscal limitation measures;

(2) That grants from the Federal Government to localities are definitely on the downtrend; already in real terms and soon will be in nominal terms;

(3) Grants from States to local governments are threatened as income tax indexing spreads, as fiscal limits hit at the State level, and as Federal grants to the States diminish; and

(4) Local financial obligations continue—especially in the older cities where the remaining population contains a large fraction of disadvantaged people, where there are increasing requirements for unfunded civil servant pension outlays, and where long-ignored capital replacement needs—such as bridges, sewers, and streets—are mounting. There appears to be only one source for new revenues if local governments are to avoid devastating cutbacks in operations, and thus in public service provisions; and that is benefit-based financing.

User charges, fees for service, and special assessments are examples of benefit-based financing, but they hardly constitute new ideas in local financing. What came very clear to me at the conference were two critical facts. First, that local government people know surprisingly little about the myriad of possible applications of benefit-based financing, including those applications in nearby jurisdictions which have proved to be practical; and, second, that many officials worry about the inequitable effects of benefit-based financing because they fear that the switching from taxes to charges will inevitably shift the financial burden of government toward lower income groups.

That is to say, officials recognize the potential of benefit-based financing for raising revenues. They are open to the argument that this approach would make government more efficient, since it would encourage people to consume services only in amounts they are willing to pay for. So, to respond to Mr. Carleson's point, we would observe the gradual disappearance of services that people are not willing to pay for, which I think is a desirable outcome, except, of course, for certain classes of truly public goods.

What they don't seem to realize—I am talking about the local government officials—is that equity protection can be built into benefit-based financing so as to safeguard the welfare of lower income groups. For convenience, let's call the modified approach I will try to outline EBBF, which is equitable benefit-based financing.

Many examples come to mind. The collection of special assessments which finance improvements redounding to the benefit of local property owners—for example, street lighting and repairs, sewer projects, and the like—could be delayed until the sale of the individual parcels so affected. This would enable low-income property owners to vote for special assessments that would generate net gains to the value of the property, but would relieve the property owner of cashflow problems. There would be an initial decline in revenue to cities; but, once a steady state was reached, the costs of public investments could be recaptured by the local government.

To take another example of benefit-based financing, rights to consume basic levels of certain services—say, library services or emergency medical care, or the like—could be guaranteed to the poor, perhaps through the issuance of a voucher, while other consumers would pay a fee, based on the cost of production.

For still another instance, prices for particular services might vary along with the average income level of the neighborhood. We might adjust parking fees at recreational facilities, parks, beaches, et cetera, as a function of the income level of the neighborhood. We might vary charges for adult education services in a similar way. This is a rough and ready approach, but I think one that makes sense in certain situations.

Or, to extend the application even further, standard amounts of some services might be provided free of charge, while consumption of additional increments of the same service would require a fee. Some cities have systems in which the first two barrels of trash are collected for free; additional barrels mean a bill from the trash collectors, whether it is a public agency or private company.

Related schemes could be applied to some kinds of social services. Systematic thinking on this subject would, no doubt, produce many other promising applications for the principle. Police, fire, health, and education services are the big ticket items in local governments. The potential use of EBBF in these fields has received virtually no sustained attention at all, although some applications for even those services have come to my attention recently. A number of governments in southern California are considering the possibility of billing shopping centers and warehouses for the extra police protection that needs to be provided to them. I know a mayor in a small community in California who is considering in conjuction with citizens' groups and fire insurance underwriters the possibility of billing people for fire protection. That bill would be submitted after the fire was extinguished and could be covered under the insurance policy. Such a system gives the right incentives to the players in the system.

What is required is a combined research demonstration, technical assistance dissemination project on EBBF. I think it would have a high likelihood of success. The mayors, superintendents and other local officials are growing desperate in the search for alternative sources of revenue. Helping them design and install EBBF for various public products would also increase overall efficiency, as we have noted, and could be structured to incorporate the equity protections I have mentioned.

A project on this subject would be comprised of the following components: On the research side, one would want to select an array of public services and then examine the literature and survey practical experience in order to assemble a list of potential applications for benefit-based financing. It would be necessary to calculate production cost functions, analyze characteristics of demand, explore the possible externalities and other public good aspects, develop pricing schemes, devise methods for incorporating equity protections, and, very important, calculate the resulting administrative costs.

On the demonstration side, one could visualize working with a group of jurisdictions which differ in size, region, demographics, and fiscal conditions to help install exemplary EBBF systems for sample services; inform local officials as to the potential of EBBF; and tailor the EBBF systems to conditions and requirements of individual jurisdictions. This would be followed by a technical assistance phase featuring collaboration with local officials to insure that EBBF is adequately tested in real world environments, helping train local staff to operate EBBF, monitoring the effects on revenue levels and on efficiency, and evaluating impacts on equity.

At that point, assuming some success was achieved, one would want to publish articles in media accessible to practitioners; prepare handbooks and other guidance material; and to organize meetings and conferences so as to sell this notion to a much wider community of local governments. Ultimately—assuming the success of the project—I would visualize the publication of a practical book on this subject, with a title such as "Benefit-Based Financing of Local Services: How Governments Can Raise Revenues and Increase Efficiency While Protecting the Disadvantaged."

I believe that this kind of approach has much to recommend it. The emerging fiscal plight of local governments makes the timing right for EBBF. The philosophy of EBBF seems to accord with current preferences for local self-help and market-oriented approaches to public programs. An EBBF project of the kind described here offers something to the leaders of troubled cities at a time when direct Federal financial assistance is inevitably shrinking. Instituting equitable benefit-based financing will require some ingenuity and some boldness. With it, I believe we can begin to solve the intensifying financial problems of local governments.

I will stop my formal remarks here for questions or observations.

Senator DURENBERGER. Thank you, Tony.

We will start with Bob Carleson.

Mr. CARLESON. I know you touched on it and I think what you are proposing is the advantage and the added advantage. This is a good test for whether or not these services are really needed.

You mentioned you are surprised that local officials from a neighborhood jurisdiction may not be aware of this. It has been my personal experience that one of the reasons is because there is a fear, if it is put to that test, that the citizens not only have to pay for it but they might not use it. Therefore, it won't be necessary. You run into an automatic reduction of the function in the city government, which I think you recognize.

I think that this is one of the real advantages of the user fee or whatever we said. Something like a voucher or some other method of providing for those who really can't provide for those services is useful. However, we also have to be careful that we don't get into the situation which we are in now. For example, in the District of Columbia, people, because they are poor, have free access to all the emergency facilities. They call the emergency service vehicle for what, in most instances, might be a minor cut or an abrasion. This not only utilizes a very expensive service, but takes it out of commission when it might be needed for a serious matter. Then they use the emergency facility of the hospital for the treatment.

So, in developing a voucher system to provide for those benefits, I think we have to be particularly aware that it is designed in such a way that it will provide adequate service for those who need it and can't pay for it, but will not be misused.

I will ask a question. Do you feel that California has had a head start in this deprivation of revenue sources, because of Proposition 13 and because they were saved for a year or two due to a large State surplus? Maybe we are about to get to the laboratory experience which you are proposing. Maybe we can learn quite a bit from it.

Mr. PASCAL. I think it will happen. It has not occurred extensively as yet. I have been following the figures. The California State controller turns out data on the revenue sources of the local governments with fairly good accuracy. So far we have noted an uptrend in fees and charges, but they have been modest—from 11 or 12 percent of our own source revenues to maybe 15 or 16 percent—since the passage of Proposition 13. I think there is no way for it to go but up as the State's surplus is expended.

It is also interesting that the many local governments of California will be trying different sorts of things. Up to now the fees have been imposed in fairly obvious ways—for example, raising parking charges, increasing library fees, and most important of all, escalating development fees. Some have calculated that, by now, new housing in California is higher by $10,000 or $15,000 because of the up-front permit and development fees that developers pay in lieu of the taxes which the property eventually would have generated before Proposition 13.

In sum, we will be seeing the emergence of spontaneous laboratories in California and Massachusetts where the crunch is the hardest.

On your earlier points as to the laxness of voucher schemes, in controlling against abuse and as to cities being fearful to institute charges because they might then find that the demand wasn't there: both problems would be counteracted by the severe financial pressure cities face. Fees appear to be the only way out.

Mr. **Schultze.** Intellectually, I think the set of suggestions is marvelous. The approach is good in the sense of playing it out, realizing there are specific problems case-by-case—transaction costs and everything else. The thing I wish to express a bit of concern for, knowing that you very well have in mind all of the qualifications, is that what you want to charge for isn't necessarily the same thing as what you can charge for. For example, it is possibly fairly easy to charge admission to the National Gallery, although I don't think I would want to do that. There is a whole range of things. This isn't arguing against your point of view, but I am scared to death of the political thrust that you will look at these, that is low transaction costs. The cities may look at all sorts of other social objectives which I think quite legitimately, in many cases, are associated with free provision.

Mr. **Pascal.** Would you argue that you wouldn't want to charge any fees, or that you wouldn't want to charge certain people?

Mr. **Schultze.** Any.

Mr. **Downs.** Do you want to have a means test at the door?

Mr. **Schultze.** You could pass out public service vouchers which are useful in 86 listed areas—that I understand. But I think there is something about a society—I don't know where you draw the line because you can use the same argument to justify anything, libraries, museums. Certain things are free because, quite frankly, we want to subsidize certain things. It is a semi-elitist point of view, but so is education as a whole.

My only caution—I am scared to death that cities would not do the more complicated sorts of things that you can really do.

Mr. **Pascal.** There is a danger. That is why experimentation on EBBF in different sorts of places is what I advocate.

Mr. **Carleson.** In response to that, I think that is an appropriate place for local government to make these kinds of decisions. One local government may decide a fee to an art gallery is worth substituting directly. Others may decide that swimming pool use is more important.

I think it is these kinds of questions—as to whether it is really something that all the public should have free access to—that are best delegated to those communities. What we are doing is getting our own value systems placed here. I think that, to the extent we disagree, is a good reason for delegating those kinds of decisions to the local level.

Mr. **Gray.** Let me enter another level of thinking. What if I live in a community that has free swimming? However, I would enjoy a free art gallery. It is inconvenient, or too costly, for me to move; and I am outvoted. What are my options at that point?

Mr. **Pascal.** You can move.

Mr. **Gray.** I can move if it is convenient, or if it is inexpensive.

Mr. **Downs.** Or you can buy your way into the art gallery.

Mr. **Carleson.** The alternative is to present everything for free and pay for it as a group.

Mr. **Schultze.** It seems to me—I am not sure I can articulate this very well in the sense of intellectually—that a society which provides free art galleries and charges for swimming pools has something to be said for it over a society which provides free swimming pools and charges for the art galleries. There is something about education.

Mr. **Pascal.** In this discussion we move back to the world of Charles Tiebout, where in the longer run people will settle in those communities in which they approve of what is offered free and what is subject to fee.

Mr. **Downs.** It is not the society that decides; it is the small communities.

Mr. **Schultze.** Go to Versailles. I think the French Government, itself, maintains that. I am getting a little flip.

One of the few concerns, in terms of the provision of public services, is in the area of general amenities, esthetics. There is a chance that you can push this to the point where that sort of thing in a society—which is an elitist point but not a terribly costly one—in the total, can be swamped. I disagree with the basic point.

Mr. **Pascal.** We don't need to go to the extremes. We can calculate what the marginal cost for the running of the gallery. We don't necessarily need to charge that full cost, but charging something might be a good idea.

Senator **Durenberger.** Mel, do you have any additional questions?

Mr. **Gray.** Let me pursue this a little bit further.

Mr. Pascal is very imaginative in anticipating and answering, in advance, some of the objections to some of the possible schemes under this approach. Let me toss another one out to you. This is something that happens to have been bothering me for quite some time.

With the cutback in funding for the arts community and the arts consumer, there has been the usual kind of uproar. This approach would suggest that we fund those who benefit from the arts, if indeed we consider the arts to be of sufficient merit to receive some kind of funding. Who do you fund? Do you fund the consumer? The viewer? The customer? Or, do you fund those that provide the goods or services? What we have done in the past is fund the theater, the artist. How do you reconcile this? Or is reconciliation necessary? Do you switch funding from the artist to the consumer? If not, what is "artistic?" Can you handle that?

Mr. **Pascal.** I am not sure I can. We get back to Charles Schultze's notion of esthetic merit goods, as it were. Society decides, out of its tradition and culture, those values that need to be preserved whether anybody is willing to pay for them or not. I grant there are cases of such a nature. It would still seem to me that the burden of proof is on the other side and that, except in special circumstances, you probably want to provide the subsidies to the people who want to consume the art. Generally, that would be the approach I would favor.

Mr. **Downs.** Creative artists are supposed to starve; that adds to their creativity.

Senator **Durenberger.** Any other questions from the panel?

Mr. **Waldhorn.** The ultimate answer here is some kind of ultimate voucher—which we might call money—which is used to buy it. [Laughter.]

Senator DURENBERGER. Let me ask you one question. One of your examples that bothered me deals with the issue of who pays, particularly as it applies to a monopolistic service. The example which you used was the California mayor who was contemplating charging the cost of the fire department to those who had fires. This cost would be covered by insurance. My problem is that it just hands the cost of the service in that community on to a third party—the same way we have done it with the health services, the result being that there is very little control over the cost of health care. I would guess in that community you are going to get a rather elaborate fire department with rather elaborate equipment. Everybody is going to insist that they have a fire station in their block, or something like that, because they have a relatively easy way to pass on the cost.

This leads into another form—to the degree it is a form of monopoly service in this country—which is elementary and secondary education. We have a fetish, if you will, for an appropriate lag, in some cases, for what has been called public education. We built up an incredibly large institutional delivery system in which we have financed the institution, in most cases, rather than the individual. Yet, I am reminded, when I hear Tony and others talk about reforming the system by changing the incentives for the providers, that that is also the one service in which the provider of the service is looked at as an individual who really doesn't get to do his or her own thing. In other words, teaching is about the only profession in this country, at least in the public school system, where they don't get to teach. They really don't make decisions about what is best for those consumers who they see every day. Those decisions are made for them by the government or by the availability of financing.

Would you just apply your EBBF theory to elementary and secondary education?

Mr. PASCAL. I am a firm believer that the right to education must be publicly financed. The financing of basic primary and secondary education is the responsibility of government. That doesn't mean that those who produce the education need to be government institutions; it means people need to be guaranteed access.

I think people are better off when they were given some kind of choice. There has been a proposal in California—as of yet it has not become an initiative—however, if Jack Coons has anything to say about it, one day the California public education system will be converted to a voucher system in which the government would provide the financial rights to consumer education services but would no longer operate a monopoly by means of the public school system. The public schools would then compete with the various sorts of private education providers for the market of consumers. The government would still enforce truancy laws and all the rest of it.

Coons argues very eloquently about who loses most from the current monopoly situation—monopoly in the sense that if you decide to put your children in private schools, you pay twice; school taxes and private tuition. The biggest losers from that system are probably upwardly mobile minority families, living on fairly modest incomes in neighborhoods where the public school choices are pretty dismal. There is no way they can break out and purchase a better education for their children without paying a double cost to get that education. The voucher scheme would provide a way out.

Going back to EBBF—assuming you keep public schools rather than go to a radical measure such as vouchers for schooling—there are many things schools do, that are not part of the basic education package, for which they could charge.

Again, I would urge some kind of guarantee of consumption of these extra services to low-income groups, where others would be asked to pay the full costs. The adult education system, after-school sports, many kinds of extra curricular services the schools provide could be financed through fees—and similarly for supplies and books. We might also scrutinize our community college systems in which much of the operation consists of vocational education that improves people, in terms of their human capital, and yet in which the fees collected are trivial compared to the benefits that are being derived by the consumers.

Mr. SCHULTZE. Yes, I am fascinated by Tony's approach. But, again, let me present some problems.

First, it seems to me, since there are a number of areas where there is private market differentiation by demand, changing makes a lot of sense. The whole thing will be mucked up with social questions by bringing in all sorts of other things once you get into the education part of it. There are all kinds of reasons—right or wrong—historically why the nature of public education, as well as its distribution, was an important social question. So, first, I raise the question whether one wants to get into this very fruitful area by taking on the hornet's nest.

Second—and I haven't thought this through; there probably isn't an answer to it—it seems to me that we want to be very careful not to move into areas where you really do want to provide vouchers. You probably want to do it, as much as possible, in areas where you don't have to make your beginning by setting up marginal tax rates. For example, if I am going to give vouchers for participation in after-school sports to the wealthy suburbanites, I can distinguish the wealthy suburbanite; but, where do you draw the line? Where do you get a margin? Why does one have to pay 20 cents on the dollar and the other have to pay 80 cents? It seems the fruitful point can be applied to more places, when people think of mixing it up with the deep social problems of education and providing vouchers. At least on a broad scale, you are raising an awful lot of problems for an otherwise great idea.

Mr. PASCAL. I agree it gets messy. That is precisely why I argue for a substantial and systematic program of testing and evaluation.

Senator DURENBERGER. This will be the last reaction before we have a hornet's nest.

Mr. KOLDERIE. We have a voucher system in Minneapolis right now, which is confined to the public schools. The vouchers don't have to have anything to do with private schools and, therefore, don't have to raise any of those social questions. Minneapolis has gone probably as far as any city in the country toward giving people a choice of where they want to send their kids to school—of course, totally within the desegregation guidelines imposed by the Supreme Court.

The thing they need to do a little bit more is give the principals of those schools an opportunity to differentiate those schools. The one thing I would like to see is an experiment in a multischool district where the principal and the staff are given, in advance, the amount of money that the public is going to spend in that school in any way, guaranteed for 5 years, and then essentially deregulated. There are provisions in the State law to cut a school loose from the requirements about seat time and class time. You would also want to work out some waivers from the provisions of the master teacher contract. Then see what they do, and allow the schools to keep whatever money they don't spend, provided they meet the specs set by the State board and the district board. That would be a way of introducing the incentives we talked about in a very real form.

I would even go a little further and start with the teacher group and let them, for once, hire the administrators. That is what sets education apart from other professions, where the professionals do hire the administrators. In education, the administrators hire the professionals. That is one of the reasons it is in as much trouble as it is.

Mr. SCHULTZE. The fact is you are going to make the private schools like universities where, in effect, the faculty hire in many cases.

[The prepared statement of Mr. Pascal follows:]

EQUITABLE BENEFIT-BASED FINANCING FOR LOCAL PUBLIC SERVICES

Testimony by Anthony H. Pascal,
Senior Economist, The Rand Corporation

Before the Forum on Alternatives to Public Services Delivery
Subcommittee on Intergovernmental Relations
Committee on Governmental Affairs
United States Senate
July 28, 1981

How can local governments finance themselves in an era of fiscal austerity? The only solution is to begin charging citizens for the public services they consume. With some imagination, governments can install benefit-based financing and still protect the interests of low income groups.

Rand recently held a conference, Prospects for Local Government: Coping with the New Fiscal Environment, with major support from The Ford Foundation. About 120 local and state officials, interest group representatives and researchers attended. Most of the presentations and discussions revolved around questions of local government finance in an era of fiscal austerity.

If I were to summarize the central conclusions, they would run somewhat as follows: (1) growth in the tax base for local government has largely peaked, where the base has not actually contracted as a result of fiscal limitation measures; (2) grants from federal to local government are on the downturn; (3) grants from state to local government are threatened as income tax indexing spreads, as fiscal limits hit at the state level, and as federal grants to the states diminish; but (4) local financial obligations continue, especially in the older cities where the remaining population contains a large fraction of disadvantaged people, where there are increasing requirements for unfunded civil servant pension outlays, and where long-ignored capital replacement needs are mounting. There appears only one source for new revenues if local government is to avoid devastating cutbacks in scale of operation and thus in public service provisions--benefit-based financing.

User charges, fees-for-service, and special assessments are examples of benefit-based financing; they hardly constitute new ideas in local finance. But two critical facts became clear at the conference. First, local government people know surprisingly little about the myriad possible applications of benefit-based financing, including those applications which have proven successful in practice. Second, many officials worry about the inequitable effects of benefit-based financing because they fear that switching from taxes to charges will inevitably shift the financial burden of government toward lower income groups.

That is, officials recognize the potential of the benefit-based approach for raising revenues. They are open to the argument that this approach would make government more efficient since it would encourage people to consume only as much service as they are willing to pay for. What they don't seem to realize is that equity protections can be built into benefit-based financing so as to safeguard the welfare of lower income groups. For convenience, call the modified approach I sketch below EBBF (Equitable Benefit-Based Financing of local government services).

Many examples come to mind. The collection of special assessments which finance improvements redounding to the benefit of local property owners (e.g., street lighting and repairs, sewer projects, etc.) could be delayed until the sale of the individual parcels so affected. Low income property owners could then vote for special assessments that generate net gains to the value of the property, but would be relieved of cash flow problems. As another example, rights to consume basic levels of certain services (e.g., library privileges, emergency medical care, etc.) could be guaranteed to the poor--say by the issuance of vouchers--while other consumers would pay fees based on cost of production. Or, prices for particular services (e.g., parking charges at local parks, adult education, etc.) might vary along with the average income level of the neighborhood. To extend the applications, standard amounts of some services might be provided free of charge while consumption of additional increments would require a fee (e.g., trash collection, some social services). Systematic thinking on this subject would no doubt produce many other promising applications for the principle. Police, fire, health, and education services are the big ticket items in local government; the potential use of EBBF in these fields has received virtually no sustained attention at all.

A combined research-demonstration-technical assistance-dissemination project on EBBF would have a high likelihood of success. Mayors, superintendents, and other local officials are growing desperate in their search for alternative sources of revenues. Helping them design and install EBBF for various public products would also increase overall efficiency and could be structured to incorporate protections for low income groups.

I would like to see a project comprised of the following components:

- Research. For an array of public services, survey literature and practical experience to assemble a list of potential applications for benefit-based financing:
  - --Calculate production cost functions.
  - --Analyze characteristics of demand.
  - --Explore possible externalities and other "public good" aspects.
  - --Develop pricing schemes.
  - --Devise methods for incorporating equity protections.
  - --Calculate resulting administrative costs.
- Demonstration. Work with a group of jurisdictions which differ in size, region, demographics, and fiscal conditions to help install exemplary EBBF systems for sample services:
  - --Inform local officials as to the potential of EBBF.
  - --Tailor EBBF systems to conditions and requirements of individual jurisdictions.
- Technical Assistance. Collaborate with local officials to ensure that EBBF is adequately tested in real world environments:
  - --Help train local staff to operate EBBF.
  - --Monitor effects on revenue levels and on efficiency.
  - --Evaluate impacts on equity.

- *Dissemination*. Based on the results of the research, demonstration, and technical assistance components, disseminate findings to appropriate audiences:
  --Publish articles in media accessible to practitioners.
  --Prepare handbooks and other guidance materials.
  --Organize meetings and conferences.

Ultimately, I would visualize the publications of a book which, assuming the success of the project, might have a title such as: *BENEFIT-BASED FINANCING OF LOCAL SERVICES--How Governments Can Raise Revenues and Increase Efficiency While Protecting the Disadvantaged*.

The EBBF project has, I believe, much to recommend it. The emerging fiscal plight of local government makes the timing right for EBBF. The philosophy of EBBF seems to accord with current preferences for local self-help and market-oriented approaches to public problems. An EBBF project as described here offers something to the leaders of troubled cities at a time when direct federal financial assistance is shrinking. Instituting Equitable Benefit-Based Financing will require some ingenuity and some boldness. With it I believe we can begin to solve the intensifying financial problems of local government.

Senator DURENBERGER. On that, we will move to Brian O'Connell who is president of the Independent Sector. Previously, he served as executive director of the Coalition of National Voluntary Organizations. For the 12 years prior he was the national director of the Mental Health Association, and now is director emeritus. Prior to that he served with the American Heart Association in Pennsylvania, Maryland, and Delaware. We are happy that you are here.

TESTIMONY OF BRIAN O'CONNELL, PRESIDENT, INDEPENDENT SECTOR, WASHINGTON, D.C.

Mr. O'CONNELL. Thank you, Mr. Chairman.

Because many may not be familiar with the new organization, Independent Sector, let me just indicate this is an organization of foundations, corporations with national giving programs, and major groups of voluntary organizations, covering culture, religion, social welfare, international activities, and so forth. The common denominator among this diverse group of organizations is their desire to be sure that there are, way into the future, opportunities for citizens to have a greater impact on their lives and their communities.

In my comments today I will be speaking only about the voluntary organizations as deliverers of public service. Obviously, there are other roles that voluntary organizations play. I will also be talking primarily about areas of public responsibility. I recognize there is tremendous debate about what is covered within that; but, to the extent there is agreement, I will focus there. I recognize that there is great debate about whether abortions should be covered, but there is pretty much agreement that emergency health services are a public responsibility. Similarly, though there is debate about public support of museums, I submit there is a tradition of public expenditures for libraries.

One of the things that I don't think is fully realized enough in this country is that we have already begun to fulfill those public responsibilities, largely through instrumentalities other than the Federal Government. We tend to focus on how large the Federal Government has grown in the past 50 years, but we have failed to really focus on the pattern of that growth. There was an article, a short while ago, in the Washington Post by Lester Salamon—now with the Urban Institute—called "The Rise of Third Party Government." Les makes clear that in the past 20 years—between 1960 and 1980—while there was a doubling in real dollars of the Federal budget, during that same 20 years the payroll for Federal employees rose at the rate of only 20 percent.

What has already been happening is that this increased public responsibility, or agreed upon public responsibility, is increasingly fulfilled via contracts and other arrangements with State and local governments and through voluntary institutions and proprietary organizations. It started with the grants-in-aid and now extends to, I think, something like 59 different ways by which the Federal Government participates as a partner with other groups in the provision of public services. So, the pattern of expansion has already been away from Federal Government programs to a Federal Government partnership in financing those programs.

One of the things, though, I think we have to recognize is that people are increasingly questioning whether or not the centralized, pluralistic system really works. There are more people today who are questioning the quality of service rather than the cost of service. This pattern of financing this crazy matrix, this crazy network of public service, has caused many people to conclude that it is unresponsive, unmanageable, ineffective, and incapable of accountability. Public administrators, legislators, and others are now insisting that we have to go to a much more clearly delineated public system which is not confused by contractual arrangements and other delegations or assignments of governmental responsibility.

Even though in this country we are truly emotionally and intellectually committed to dispersion of authority, decentralization, and pluralism, those desires and convictions are challenged by competing realities. We will say very emphatically we don't want one Federal monolithic system for health care delivery or social services. However, just as stridently, we will say we want a system—by God, we have to have a system—that is coordinated, comprehensive, and accountable.

Clearly we don't now have that kind of system. We are now faced with an absolute contradiction of how in the world are we going to reconcile our desire for decentralization and dispersion with our determination, that those systems are going to be accountable and manageable. In this country, we have tended to reconcile these desires for decentralization and accountability by building and increasing Federal Government regulations and controls into these complex systems. Now we are wondering what, in the world, have we done to stifle the initiative we thought we were going to buy in the first place. The result is a profusion of pluralism fighting against the centralization of funding, planning, and authority.

Into this terribly complicated picture come a new administration and a new Congress with a welcomed determination to simplify the way this country does its business. Some think the solution is as simple as transferring back, to private giving and voluntary organizations, the programs claimed to be their traditional responsibility. Many believe that voluntary institutions should, at least, carry forward the governmental programs which are cut back or cut out. At the other extreme, we have many in the bureaucracy who think the solution is to hunker down until the new team—such as President Reagan and Senator Durenberger—runs through its bright ideas. Then we can go back to doing business as usual.

As long as we don't exaggerate what the private sector can do, or what government should not do, I think there is a chance at hand to make remarkable strides. However, the fundamental decision that I think we have to address is whether we are going to try to develop that streamlined, accountable, identifiable, discernible, top-down governmental structure; or we are going to continue to do our public business through the more complex mix of governmental levels, voluntary institutions, and proprietary organizations.

If we are going to go the pluralistic route, as Dr. Schultze suggests, we have to realize it involves risks. I submit it is the Federal Congress that has to be the one willing to take those risks. Up to now, part of the reason for the centralization is that Congress holds the bureaucracy immediately accountable. If you are going to be decentralized, you have to take major risks.

There are attractions to building that one governmental system. I think all of us of totally different, political and philosophical persuasions have concluded there are practical limitations to big government. On the other hand—and this may seem strange coming from one who is identified with the Independent Sector—too many people are carried away with the rhetoric of pluralism, dispersion of authority, and decentralization, while overlooking the clear evidences of breakdown in such factors as coordination and accountability.

After years of struggling with this dilemma in some very, very sticky situations—including the mental health field for some years—I have concluded that we have to approach this from two fundamental decisions. One, that whatever delivery mechanisms we may want to establish for these public services, we must acknowledge up front that they are a public responsibility. We can say we want the churches to play a larger role in the delivery of social services. We can say we want voluntary organizations to do much more about services for the elderly. However, we can no longer allow our delivery preferences to obscure the fact that these are a public responsibility.

The second fundamental decision, often viewed as a contradiction to the first, is that I have finally learned that the only systems which really work are those that achieve the involvement of citizens and their representatives in shaping and evaluating the programs designed to serve them.

All of my experience of trying to deal with heart disease, stroke, comprehensive health planning, children with learning disabilities, and the complexity of mental health leads me to favor a system which starts with public responsibility but provides for many different ways that public responsibility can be fulfilled.

I recall a recent conversation with Margaret Hickey, one of the most senior and sage counselors I have ever talked to. We were talking about how to organize human services in this country. Margaret drew on her years of seeing the pendulum swing back and forth between centralization and decentralization, and of seeing the Federal Government trying to paste so many different systems on unsuspecting States and local communities. She concluded that in this continent-wide Nation—this is a big difference between us and many other nations—in this continent-wide Nation of such total diversity, we can't expect one model to be right or expect the Federal Government to ever achieve the degree of omniscience necessary to figure out what is right for the citizens of Roaring Fork, Los Angeles, and Bangor. She concluded that the best we can do is stipulate the basic services which should be provided and the basic attributes which should be present and, then, let local people do it their way. I realize that sounds terribly simplistic, but I sure have learned to lean in that direction rather than the opposite.

I personally get discouraged, Mr. Chairman, with the many people—fortunately not in this hearing—who assume that we only have to find that one solution to solve the complexities of human needs. For what it is worth, I have finally evolved a formula which, if followed, gives the best possible chance of providing services that are available and responsive. So they don't just seem like a simplistic list, I have put them in the background of trying to provide mental health services—I have to tell you that this is, by far, the most complex I have ever tried to deal with.

The first is availability of public service. That may be taken for granted, but try to provide emergency services for a depressed person on Saturday night and you will realize that availability of service is the starting point.

The second is accessibility of service. Certain regulations relate to the size or population base to be served, such as 200,000 people, but try to cover that much population in northern Minnesota and you will wonder pretty quickly about accessibility.

Third is affordability. By God, try to get service today for a kid with autism, or try to get services for a schizophrenic relative. When looking at your insurance policy, you will find major exclusions unwarranted on the basis of actuarial studies for the coverage of those kinds of services.

The fourth is coordination. By God, try to coordinate mental health services and you will go absolutely crazy in any city, county or State today trying to get all the services necessary for a seriously mentally ill relative.

The fifth and final factor in my formula is citizen control and participation. If, after years as a community organizer, I had to emphasize any one factor that is most likely to provide responsive, sensitive, effective service, it would be that element of citizen control and participation—including, and indeed emphasizing, consumer involvement in articulating needs, planning services, operating plans and evaluating results. The more I work with communities the more faith I develop in the capacity of human beings to respond to responsibility with commonsense and practicality.

I would submit that it is the breakdown in providing coordinated, effective, sensible services that is of far more concern to the American people than the cost. I am not arguing for increasing the costs. However, I think if we can make these services effective and responsive, we will not need to assume that the available dollars for such services are going to continue to drastically shrink.

Obviously, it is necessary to deal with the issue of financial responsibility. For years I have gone round and round in circles to try to avoid what is a painfully obvious conclusion—which is, if it is a public responsibility, then public financing is the underpinning of the effort. I am an absolute believer in fees for service, vouchers in certain areas and other means by which the values of the marketplace are applied to making services available and responsive. But by God, financial responsibility for public service is ultimately a public responsibility.

I commend the subcommittee and particularly you, Mr. Chairman. Your enlightened interest in alternative delivery systems is bound to pay off in greatly improved approaches to our problems and, just as importantly, in improved approaches to our aspirations.

Thank you.

Senator **Durenberger**. Thank you very much.

Mel, can I start with you? I will also turn the chair over to you. In case I don't get back, I wish to express my appreciation to you, Bob, Charlie, Mel, and to our panelists.

Mr. **O'Connell**. It wasn't anything I said, was it? [Laughter.]

Mr. **Gray** [presiding]. Let's assume we do allocate the responsibility of funding public services to the public sector. Do we want to incorporate your other ideas? A casual observation: Volunteerism has fallen upon hard times in recent years, perhaps that is a misconception—if it is, I stand corrected. If that is the case, how might incentives be restructured so as to encourage people to volunteer, given that the current structure of incentives seems to be not to volunteer because people's time has become more valuable. Alternative opportunities for women, for example, reduces the pool of volunteers; potential volunteers working beyond retirement age may reduce the pool of volunteers.

What can be done to restructure the incentives?

Mr. O'CONNELL. I am delighted to indicate, Dr. Gray, that your assumption is not correct. I do this because I think you will welcome the good news. Volunteering is on a marked increase. We have more volunteers in proportion to the population and numbers than at any time in our history.

There are two things that have changed which caused this misconception that volunteering is on the decline. One is that the traditional hospital or church is, indeed, finding it very difficult to tap into that very narrow source of volunteer workers which existed for them for so many years—those middle-income, upper-middle-income people where you have a woman who recruited, oriented and coordinated. It is tougher to do, not so much because the women are working. I will say, parenthetically, that women who do work are more likely to volunteer than women who do not. That is something which came out in the survey.

More people in the community today are participating. There are more young people, more old people, more men, more retired who are volunteering. The hospital or church must be willing to spread, to tap into other populations. It is tougher work to cover the jobs of the church or the hospital.

The other major change is the degree of activism today. This is so obvious and yet we don't think of it as volunteering. Women are concerned about women's rights or are concerned about proabortion or antiabortion. People are cause-oriented. There are more people today willing to stand up and be counted because they believe with the moral majority or they believe with the opposite. It is a healthy thing whether you like it or not, whether there are causes or not. People are standing up. They are speaking out.

We are learning that we need to be a society where there are more options, where there are services closer to people. Citizens have a responsibility to stand up and be counted. They need an opportunity to give—volunteer and participate—in that society.

I don't go along with the scheme that says we have to give tax breaks to people because they volunteer, or provide inducements in any other way. I don't think that is necessary. I think it is happening. We ought to keep those freedoms wide-open so people have a chance to identify with the moral majority or with the Urban League.

Mr. GRAY. That is very reassuring.

Mr. CARLESON. What you said here is interesting. I certainly agree about the need to decentralize. What I guess I am hearing is this: When you stated that we should recognize, as a basic premise, that the cost of the services should be a public responsibility, my first observation was, to a certain extent, I might agree if we take government in a generic sense. When we are talking along the lines of decentralization, we are talking about local government being included in government. When you commented about the fact that there should be citizen control, I was in agreement for a while, particularly when you talked about elected officials—locally elected and otherwise. When you mentioned citizen control in the line of consumers of the services, then I got lost a little bit.

It seems to me that if the funding is going to be a government responsibility, and if we are going to have citizen control, then the citizen control should be citizen control through their elected officials, who we hope are citizens and are probably the most democratically chosen. If we are going to have a government responsibility for funding, I could agree that the citizen control should be through the elected officials of the government responsible for providing the funding.

Later in your paper—you didn't mention it in your summary of the paper—you did comment on the actions of the Congress. You talked about incentives for contributions, tax incentives I presume, for more voluntary financial contributions to the independent sector.

Having made those general points, I would like to ask this question: If, in fact, the government fulfilled its responsibility for funding programs by providing tax incentives for contributions to the nongovernmental sector, would this fulfill your requirement that the funding be a public responsibility?

Mr. O'Connell. No. I think that is simply one of the means by which the Federal Government helps to provide the financial wherewithall to produce and perform public services.

Let me go back to your first point. In the context of our discussion today, I would say that if the community elected officials decide that the hospital system for the next period of years is going to be delegated to voluntary organizations, or to proprietary organizations, or maybe taken from those and run as a governmental facility because it isn't working the other way, then those are the kinds of options that elected officials should have.

There should be wide-open mechanisms by which the people are served by that hospital. I am a great believer in more referenda, more opportunities for people to be heard about these services, and more opportunities for people to be able to grade the service. In this way the elected officials are much clearer about whether or not the people, who are being served, really feel they are getting good service.

On the second part of your question, I think those elected officials are responsible for seeing that those hospitals are there, whether they are run by voluntary organizations or the government itself. The funding mechanism can involve insurance, third party payments, or other fees for services. What I am suggesting is that the responsibility, to be sure that they are present and funded, is basically a public responsibility. The public is represented via their elected officials.

[The prepared statement of Mr. O'Connell, with attachment, follows:]

PREPARED STATEMENT OF BRIAN O'CONNELL, PRESIDENT, INDEPENDENT SECTOR

I am Brian O'Connell, president of INDEPENDENT SECTOR, an organization of 315 national foundations, voluntary organizations, and business corporations that have significant contributions programs (The list is attached.). These groups have joined together in INDEPENDENT SECTOR to strengthen our national tradition of giving, volunteering and not-for-profit initiative. The organizations are as different as American Heart Association, United Negro College Fund, The Rockefeller Foundation, National Council of Churches, Shell Oil Companies Foundation, American Association of Museums, The General Mills Foundation, National Council of La Raza, Planned Parenthood and Catholic Charities. The common denominator among this diverse mix is their shared determination that people will have greater opportunity to influence their own lives and the kind of society in which they live.

In my testimony today I will be speaking primarily to the role and capacity of voluntary organizations in service delivery.

To further define my area of concentration, I will be focusing on those services that are generally regarded as public responsibility. I acknowledge that there is considerable debate about what is agreed to be public responsibility but to the extent there is agreement, I will focus there. For example, although there is debate about the government's role in abortions, there is agreement about emergency health services. Similarly, though there is debate about support of museums, there is a tradition of support of public libraries.

Before addressing the role of voluntary organizations as service deliverers, let me comment briefly on some of the other functions of voluntary organizations. I do so because the current debate about the service delivery role causes some people to think of voluntary organizations primarily as deliverers of direct public services. In three of the major current contributions of voluntary organizations direct service delivery and public funding are not significant factors. These include the major contributions of groups working to protect and extend the rights of women, Hispanics, Blacks, and other minorities, the burgening number of organizations dealing with mutual help, such as Parents Without Partners and Alcoholics Anonymous and the neighborhood improvement organizations which represent spontaneous citizen efforts to improve local conditions.

Our voluntary organizations in this country represent an unbelievable variety of shared efforts to represent the concerns and aspirations of our citizenry. They augment existing services, demonstrate new services, advocate, experiment, provide and protect religious expression and in many other ways give individuals an opportunity for uniqueness and fulfillment.

As important as the direct service delivery role is, and it is terribly important, it is still secondary to the role of such institutions in providing an outlet for individual expression.

Within that broader framework let me deal with the service delivery role. As stated so often, many of the services now understood to be a public responsibility began with voluntary institutions. For example, education, care of orphans, shelter for the destitute elderly and on and on. However, in many cases it is hard to make a distinction between what was voluntary and governmental. We often point to the Minute Men as grand examples of voluntary action at its best and yet this banding together was really the outgrowth of community consensus achieved through town meetings.

As people have agreed that their government should carry on certain basic functions, there has evolved a public/private partnership in most areas of public endeavor. Very often, rather than establish governmental facilities or programs the government has chosen to fulfill its newly agreed upon public responsibility through voluntary institutions. A relatively recent example relates to health research, now a multi-billion dollar Federal enterprise carried forward largely through the universities and with some growing role for private businesses. Today in about all areas of public responsibility, this partnership exists, including hospitals, schools and colleges, family counselling, maternal and child care, job training for the unemployed, homes for the aged, protection for endangered species and land, international education and exchange and on and on.

Obviously in the past 50 years we have expanded enormously what is considered public responsibility. And as the size and scope of these responsibilities have grown, we have turned more and more to the Federal government for financing and leadership. The national character of many of these problems, the limitations of the tax base of state and local government and the limitations of funds voluntarily contributed have all caused us to look to Washington.

Though much attention has been paid to the growth of the Federal government it is important to our orientation to today's topic to realize that in more recent years the pattern of expansion of Federal activity has been in the direction of funding activities of state and local governments and of voluntary organizations.

In a June 29, 1980 article in the Washington Post entitled "Rise of Third Party Government," Lester Salamon now of the Urban Institute wrote of "a larger transformation that has taken place in the Federal enterprise. This transformation involves a fundamental change in the way the Federal government carries out its business, a change that has been underway for more than a generation but that is still only dimly perceived."

"The heart of this change is a shift from direct to indirect or "Third Party government," from an arrangement in which the Federal government ran its own programs to one on which it relies primarily on others -- states, cities, special districts, banks, nonprofit corporations, hospitals, manufacturers and others -- to carry out its purposes instead."

He went on to say "The distinctive feature of "Third Party government" is that what is being delegated and shared is a far more basic governmental function -- the exercise of discretion over the spending of Federal funds and the use of public authority."

These partnerships began with the wide variety of grants-in-aid and now extend to formula grants, categorical grants, block grants, project grants, fees for service, interest subsidies, vouchers, loans, loan guarantees, credit insurance, purchase agreements, surplus land grants and many other forms of federal assistance.

In his article Salamon points out that this trend in the way the Federal government does its business is most dramatically demonstrated by the fact that while the Federal budget increased in real terms by 300% and the number of Federal programs increased by 30 or 40 fold over 30 years, in that same period the growth rate of the Federal work force was only 50%.

This pattern of financing and delivering public services has now reached a point of such complexity that many people consider it unresponsive, ineffective, incapable of accountability, and utterly beyond management.

Many public administrators, legislators, and others are now insisting that we must go to a much more clearly delineated public system that is not confused by contractural arrangements and other delegations or assignments of governmental responsibility.

In England where there has been an effort to reinstitute the activities of many voluntary organizations, this trend has been badly set back by a need to focus seriously limited public resources on the one public system even at the risk of losing the acknowledged benefits of pluralism. The Labour Party has even adopted the position that no government funds should flow to any private school, college or university. They argue that when government funds are so limited they must be focused on the government's own institutions.

As we in this country face harsh decisions based on our own limited resources, many of the same arguments will become pronounced.

Even though we may be emotionally and intellectually committed to dispersion of authority, that conviction is challenged by realities and by our own conflicting desires.

We don't want one federal monolithic system, for example for health care or social services, but we do stridently insist that systems must exist that are coordinated, comprehensive and accountable.

We don't want more Federal government expenditures and taxes except in the areas which we view as priority. If our priority is the criminal justice system or cancer control or clear water and air or the rights of minorities and women or learning disabilities, we can be exceedingly articulate and forceful in making the case that the Federal government as the representative of all the people has a moral responsibility to deal with that priority. And the listing is not limited to human suffering -- witness the current clamor about possible Federal cuts in the National Endowment for the Arts.

We tend to deal with the dilemma of de-centralization vis-a-vis availability of service by building complex systems involving a mix of governmental levels and non-governmental institutions and then damn the system because it is not accountable or manageable.

The voluntary organizations involved get more and more dependent on government funding, and they and we worry about the loss of their independence and, therefore, their capacity for such assumed attributes as innovation, flexibility and criticism.

And faced with repeated breakdowns of these complex systems, the federal government overlays stifling control mechanisms to try to be sure that everyone is playing the role that the Federal government believes is appropriate to them.

The result, obviously, is centralization of funding, centralization of planning, and centralization of authority -- all at a time when we say that we should be moving in a different direction.

Into this terribly complicated picture came a new Administration and Congress with a welcomed determination to correct and simplify the way this country does its business. Some think the solution is as simple as transferring back to private giving and voluntary organizations the programs claimed to be their traditional responsibility. Many believe that voluntary institutions should at least carry forward the governmental programs that are cut back or cut out. At the other extreme, some think the solution is to hunker down until the new team runs through its bright ideas and then go on with business as usual.

I think we can take advantage of the times to make progress toward better government and toward strengthening the pluralism which contributes both to good government and to the opportunities for Americans to have options, alternatives and vehicles for creativity and reform.

As long as we don't exaggerate what private philanthropy and independent organizations can do -- or what government should _not_ do, there is a real chance at hand to move ahead.

A fundamental decision will relate to whether we go for a streamlined, easily identifiable, top-down governmental structure or continue to do our public business through the more complex mix of governmental levels, voluntary institutions, and proprietary organizations.

There are certainly attractions to a more clearly delineated governmental system, but people of all political and philosophical persuation have concluded that trying to do _all_ of this country's business from Washington just doesn't work.

On the other hand, one can be carried away with the rhetoric of pluralism, dispersion of authority and de-centralization, and overlook the clear evidences of breakdown in such essential factors as coordination and accountability.

After years of struggling with the dilemma in very tangible settings, I have concluded that we have to start with two fundamental decisions.

1. Whatever delivery mechanisms we may want to establish for these public services, they are, nevertheless, a public responsibility. We can say we want the churches to play a larger role in delivering essential social services or that we want voluntary organizations to carry a larger share of services for the elderly, but we can no longer allow our delivery preferences to obscure that these are public responsibilities. Though the activity can be delegated, the responsibility cannot.

2. The second fundamental decision I have reached is that the only systems that will really work are those that achieve maximum involvement of citizens and their representatives in shaping and evaluating the programs designed to serve people.

All of my experience leads me to favor a system that starts with public responsibility, but provides for many different ways by which that public responsibility can be fulfilled. I recall a recent conversation with one of the most senior and able people in the field of human services. Margaret Hickey, now well into her seventies, still has a remarkably fresh way of looking at things; and this, combined with her sheer depth and breadth of experience, make her a sage counselor. We were talking about how to organize human services and she drew on her years of seeing the pendulum swing back and forth between centralization and de-centralization and on her years of seeing various bright ideas being pasted by the Federal government on unwitting states and communities; and she concluded that in this continent-wide nation of such total diversity, that we just can't expect any one model to be right or that the Federal government will ever achieve the level of omniscience to figure out what's right for citizens of Roaring Foark, Los Angeles and Sante Fe. She has concluded that the best we can do is to stipulate the basic services which should be provided and the basic attributes which should be present and lhen let local people do it their way. I realize that sounds rahter simplistic, but I sure have learned to lean in that direction rather than the opposite.

I get discouraged that we repeatedly assume that there is any one solution to solving the complexity of human need. For what it's worth, my experience is that there is no simple approach, but that there is a formula which, if followed, will give maximum opportunity for helping people. That formula includes the following factors:

1. Availability of service
2. Accessibility of the service
3. Affordability
4. Coordination
5. Citizen control and participation.

Citizen control and participation involve the accountability of elected officials in the fulfillment of the public responsibility. Those officials, in turn, need to have an ability to influence the planning, execution and evaluation of those services; and this certainly relates to the need to give them options to decide what is right for the times. I personally advocate a larger use of referenda and even public ratings of services, both to give citizens an opportunity to be heard and to guide their elected and appointed officials.

All of this will require a de-centralization that flies in the face of the instant accountability that the federal Congress constantly attempts to exercise over the federal bureaucracy. With all due respect, you can't have it both ways. With de-centralization, there will be risks, but the risks are a small price to pay for achieving maximum citizen participation.

If I had to emphasize any one factor among the five points of my formula for effective delivery of public services, it would be the element of citizen control and participation, including and indeed emphasizing consumer involvement in articulating needs, planning services, operating programs, and evaluating results. The more I work with communities, the more faith I develop in the capacity of human beings to respond to responsibility with common sense and practicality.

It is of course necessary to speak to financial responsibility. Over the years I have traveled a long way around trying to avoid a fairly basic conclusion, and that is if it is public responsibility, then public financing is the underpinning of the effort. I'm a great believer in fees for service, in vouchers, and other means by which the values of the marketplace are applied to making service available and keeping them effective and responsive, but financial responsibility for public service is ultimately public responsibility.

For the voluntary organizations that are in partnership to provide public services, it is also very important that there be the maximum possible level of contributed income. Without this, there is not the appropriate iniqueness the voluntary institution is supposed to represent. For this reason, it is my hope that this SubCommittee will continue to take a similar interest in expanding the private giving capacity of individuals, foundations and corporations. If we truly want and believe in a society of options and alternatives, our basic vehicle is the voluntary organization, but it can't represent the necessary flexibility and independence if it is primarily "of government."

Contributed income is shrinking as a proportion of the budgets of voluntary institutions and as a proportion of both Gross National Product (GNP) and Personal Income (PI). To represent a unique and viable alternative, such organizations must have a solid base of independent support.

I commend the SubCommittee and particularly you, Mr. Chairman. Your enlightened interest in alternative service delivery is bound to lead to more effective ways by which this country deals with its problems and its aspirations.

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Jules and Doris Stein Foundation
W. Clement & Jessie V. Stone Foundation
Student Conservation Association Inc.
Support Center
Synagogue Council of America
Syntex (U.S.A.), Inc.
Taconic Foundation, Inc.
Tandy Corporation
Teachers Insurance and Annuity Association of America/College Retirement Equities and Fund (TIAA-CREF)
Telecommunications Cooperative Network
3M Company

Time Inc.
Times Mirror Foundation
Tosco Corporation
Travelers Insurance Companies
Trebor Foundation
Trust for Public Land
TRW, Inc.
Union Carbide Corporation
Union of Independent Colleges of Art
United Jewish Appeal
United Negro College Fund
United States Catholic Conference
United States Committee for UNICEF
United States Olympic Committee
United States Steel Foundation, Inc.
United Way of America
Urban Institute
Vesper Society
VOLUNTEER: The National Center for Citizen Involvement
Volunteers of America
Izaak Walton League of America
Eloise and Richard Webber Foundation
Westinghouse Electric Fund
Women and Foundations/Corporate Philanthropy
Women's Action Alliance, Inc.
World Crafts Council
Xerox Corporation
Zero Population Growth

Mr. **Gray**. At this point I would like to invite any of the presentors to make any concluding statements or summary statements that you might have.

If not, then, any of the panelists.

Mr. **Carleson**. Other than to say that I wish Senator Durenberger were here so I could tell him that I think this is an interesting new approach to this hearing process. I am very sorry that I am not going to be able to be here tomorrow and Friday. I will be in Atlanta with the State legislators. I will say in his absence, that this has been a useful forum for me. I hope the next few days will be as useful for those others who will be participating.

I particularly want to thank you, gentlemen, for your presentations. I think there is enough variety to show that this is a broad field. It is not simple. I think there are enough points of views in here to show at least one of my bias—which is, a variety of solutions is really going to be our salvation. The only way we are really going to be able to test variety is to decentralize as many of these decisions as we can.

Mr. **Schultze**. I might say that the whole format of this hearing is a very good example of involving the private sector in congressional questions.

Mr. **Downs**. We didn't ask the audience for their contributions.

Mr. **Gray**. We look forward to 2 more days of interesting interchange. I want to thank the presentors, thank my fellow panelists and express my appreciation to Senator Durenberger.

Thank you for joining us.

We will reconvene tomorrow morning at 9 a.m.

[Whereupon, at 4:45 p.m., the hearing was recessed, to reconvene at 9 a.m., Wednesday, July 29, 1981.]

ALTERNATIVE SERVICE DELIVERY

WEDNESDAY, JULY 29, 1981

U.S. Senate,
Subcommittee on Intergovernmental Relations,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met at 9:15 a.m., in room 357, Russell Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

Review panel: Charles M. Gray, professor of economics, College of St. Thomas, St. Paul, Minn.; Ted Kolderie, fellow, the Hubert Humphrey Institute, University of Minnesota; Hon. Henry Cisneros, mayor, San Antonio, Tex.; James Scott, commissioner, Fairfax, Va.; and Anthony Downs, senior fellow, The Brookings Institution.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator Durenberger. Good morning, everyone. The hearing will come to order.

Today we move into the action part of our exploration—that doesn't sound good to those who were here yesterday. We had a lot of action. This must mean the practical part rather than the philosophical overview.

Today we move into the action part of our exploration into alternatives to traditional public service delivery systems. We hope the ideas and concerns expressed at our opening session yesterday afternoon will be exemplified this morning and this afternoon, by people from across the country who are out there trying new and different ways to meet the needs of people in their communities.

Our witnesses today represent large and small nonprofits, volunteer groups, businesses, and foundations. They are working on problems of crime, education, transportation, housing, recreation, care of the elderly, and economic development. They are all pioneers in the oldest American tradition—they saw a job that needed to be done and they are all doing it.

Today, like yesterday, we have a slightly different approach to this business of Senators and witnesses. We are trying to get more people promoted to the U.S. Senate. Yesterday we had our first 100-to-nothing vote in the Senate since 1961. Clearly, if you can get 100 people out in a 100-person body maybe it is time to expand the size of the body, because you just can't have unanimous votes on anything. This is our little effort to expand the membership of the U.S. Senate with a mayor and several other people this morning.

One of our proposed review panel people is not going to be here this morning. That is Congressman Barber Conable. He has his hands full today. He is No. 2 in the House today on the tax alternatives. We will be greatly surprised and deeply honored if Barber has the time to be here. In addition to being a 17-year veteran and ranking member on the House Ways and Means Committee, he is one of the longtime advocates in the Congress of the United States of voluntary, independent sector activities. We worked with Barber on the charitable contributions bill which, hopefully, will become part of the tax policy of this country very shortly. It would change the foundation payout rule and a variety of other things.

We do have with us the mayor of San Antonio, Tex., Mayor Cisneros. He has been an elected official in San Antonio since 1975. He just became mayor this past year, so he is not going to be bringing a lot of mayorial baggage with him, just a lot of great experience in public service. He has a distinguished academic background, including a Ph. D. in public administration. He has worked for the Model Cities program in San Antonio and for the National League of Cities. He has been a White House fellow and is on the faculty of the division of environmental sciences at the University of Texas. Mayor, we welcome you to the panel.

The other two gentlemen were introduced at length yesterday. Ted Kolderie was a witness yesterday. Because of all the things Tony Downs said about him, we have promoted him to surrogate Senator today. He also will be one of our "Senators."

Our alternative chairman, in case the real Senator gets called out on a vote, is Dr. Charles Mel Gray—Mel, as we call him—professor of economics at St. Thomas College. He will be on our panel again today.

Do any of you want to make any opening comments before we go to our first witness? [No response.]

We are going to call Bob Woodson our keynote speaker for today. He is the director of the neighborhood revitalization project at the American Enterprise Institute. The purpose of the project is to determine what mix of public policies and neighborhood strategies is most likely to produce successful community development.

He was a participant in the President's Commission on Mental Health and on the task force on community resources. He was the director of the National Urban League's Administration of Justice Division prior to coming to AEI. He is a former parole officer. I understand that he grew up in one of the neighborhoods used as an example of a community taking charge of solving a very serious crime problem.

Mr. Woodson, it is a pleasure to have you with us today.

TESTIMONY OF ROBERT L. WOODSON, RESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, WASHINGTON, D.C.

Mr. Woodson. Thank you, Senator.

I would like to take this opportunity to commend you. This meeting represents one of the few instances in my memory when a member of the Senate has expressed any interest in hearing from those in the trenches, in the communities, dealing daily with the problems that face neighborhoods throughout this country. You are to be commended for providing them this opportunity to share in this public forum. Some of those I will be referring to are in the audience. They are the people I have been studying at the American Enterprise Institute. I have been examining their capacity and their ability to overcome problems that have defied solutions by traditional human service delivery systems.

In the wake of urban violence in Miami, Chattanooga, and Los Angeles, a now familiar cycle begins: Government outlays are made to finance professionally designed crash programs and studies to treat or assess the pathology of the poor. Impressive quantities of data are gathered detailing the harsh conditions that confront the poor. This information is then used in testimony before various congressional committees and foundation boards to justify massive spending increases for social welfare bureaucracies. New programs are launched which fail, and the poor become restless. Occasional violence then erupts, and the cycle begins again.

Upon close scrutiny, it is obvious that many of the programs designed by the best and brightest of the social welfare elite not only fail to reach their intended recipients, but in some cases actually exacerbate the very problem they are intended to solve

I was asked about 2 years ago by the House Judiciary Subcommittee on Crime to examine the juvenile justice service delivery program. That was a program enacted into law in 1974 and implemented in 1975. Since then they have spent about $600 million to control and prevent youth crime and increase juvenile justice. When I examined this program for the Congress, I went to its budget page. If you want to assess the program, turn to its budget page. What I found was very interesting: Although many of the proponents of this bill and those who worked for its passage used statistics on minority, Hispanic, and black children and conditions within our urban centers to justify appropriations, when the programs were actually launched and money spent, 95 percent went for deinstitutionalization of status offenders. Little or nothing was spent on the urban black and poor.

I sat before two senatorial committees then, and my conclusions were corroborated by three independent studies. Through the juvenile justice delinquency prevention program the Federal Government participates in the segregation of our young people in our prisons by race and class, to the extent that they are deinstitutionalizing most of the youngsters who are nonminority and ignoring the needs of those youngsters in the urban centers. Consequently, there has been a sharp increase in the number of youngsters in prisons. This is a consequence of the Federal program.

When I made that statement before Senator Bayh 1 year ago, he turned and asked the Director of the agency, Mr. Schwartz, to look into the charges. Mr. Schwartz commissioned Mr. Martinez, the director of youth services for the city of Denver, Colo., as well as Judge Sylvester White of the juvenile court of Chicago. They examined my conclusions and published a report last April corroborating my conclusions and findings.

This same situation exists within the foster care system, where there are 600,000 to 700,000 youngsters being raised by the States as a consequence of a distorted public policy framework. It provides perverse incentives to the State to maintain youngsters away from home, since 50 percent of child care funds go to support staff salaries and agency overhead as well as services. So, there are actually no incentives to enable youngsters who are in the system to get out of it.

This is not true of all government programs. I am merely indicating that we have got to begin to examine our approaches to human service delivery more carefully, and to reexamine the policy framework so that incentives are placed on the positive side—in support of positive solutions to these problems, as opposed to having the State and Federal Government participate in making some of these conditions worse.

For the last 4 years, the American Enterprise Institute has been studying the positive approaches undertaken by local grassroots leaders to address some of these same problems that have defied solution by traditional professional human service deliverers. These programs recognize one fact that seems to get lost. That is, in times of trouble and crisis the first seven people to whom the neighborhood people—the low-income people—will turn are friends, relatives, and churches—those institutions closest to them within their own neighborhoods. Art Naparstek, at the University of Southern California, and Rachel Warren, at the University of Michigan at Rochester, confirmed this fact. Nevertheless, the Federal Government and the States tend to delivery services through the institution of last choice.

Over the past 4 years, AEI has gone into these neighborhoods to evaluate and examine some of these programs, and talk to some of these grassroots leaders to determine whether or not they are in fact able to evolve solutions. What we found was absolutely mindboggling in terms of the capacities and strengths that exist there. We have documented this. I would like to show a brief slide presentation, because I really think it is important for us to go into some of these neighborhoods and determine not just the nature of neighborhood capacity, but also to examine some of the barriers that are imposed.

The AEI study seeks to do two things. It asks two basic questions. One we call the minimalist proposition. That is, To what extent does public policy interfere with people's capacity to help themselves, and, a more difficult challenge, To what extent can public policy make more creative use of this valuable resources? Since most of these people are called upon in times of trouble, city officials, police and some of those human service providers will go into the neighborhoods and call upon "The Shepherds," for example, to help restore calm. Once calm is restored and order is reestablished, these local people tend to be overlooked when we are formulating policies and modeling programs to address the underlying causes of the violence. If we are to move in new directions, we have to begin to break this vicious cycle of apathy and the cycle of failure.

I will ask that the lights be dimmed so we can show the slides.

[Slide show dialog follows:]

NEIGHBORHOOD REVITALIZATION PROJECT

In the past few decades government has spent hundreds of billions of dollars on programs intended to upgrade American cities. Massive amounts of money have been spent on housing, income transfers and social services in a sincere and humane effort to improve the quality of life of the urban underprivileged. But the fact remains, huge expenditures have, for the most part, failed to change the conditions of our inner city poor. One of the most dramatic failures is St.

Louis' Pruitt-Igo housing project, a massively funded federal experiment in urban renovation that was ordered demolished only ten years after it was built.

Traditional research into community development has produced few useful policy recommendations. Upon close scrutiny, it is apparent that many of the programs designed by the social welfare elite not only fail to reach their intended recipients, but exacerbate the very problems they are designed to solve. The poor, particularly the youthful poor, become frustrated and disappointed, and violence and crime result.

But this cycle has been broken in a few instances—by nonprofessional, neighborhood people who have a stake in bettering their own community. Research conducted over the past three years at the American Enterprise Institute has documented the fact that local groups and individuals have the abilities to solve many of the problems that have defied solution by large social service institutions.

THE HOUSE OF UMOJA, PHILADELPHIA, PENNSYLVANIA

Over the past years there has been a marked decline in the incidence of gang deaths and juvenile crime in Philadelphia. The persons largely responsible for this change are members of the family of David and Falaka Fattah, the founders of the House of Umoja.

The Fattahs began their work from a concern about the almost daily killing of black youths engaged in gang warfare in West Philadelphia, a concern that was intensified when they learned that one of their six sons was a member of a street gang.

The Fattahs extended an invitation to the gang members to live in their home. Sister Fattah (shown here) relates that the only commitment the family made to the young people was to help them stay alive and to keep out of jail. The Fattahs found that the youths turned to gangs because the gang structures provided security, acceptance and defined expectations. The Fattahs substituted the extended family concept for the gang, and positive activities chosen by the youth themselves were substituted for crime and violence.

Despite its shoestring operation, Umoja survived and attracted other street youth looking for shelter. This is Frazier Street where Umoja is located. The years of neglect are evident. Umoja has purchased twenty-one houses on this block, and has rehabilitated half these buildings for youth residences and office space. Most of the renovation of the interiors is done by youths at the House of Umoja.

Some three hundred gang members from seventy-three different street gangs have been sheltered and as the family grew, so did the concept. Umoja has instigated youth gang conferences and meetings with street gang members to spread the idea of Umoja and pacts of peace. The result is, gang deaths, which averaged more than forty a year, a few years ago, have dropped to approximately one a year in the past few years.

The House of Umoja has also organized the Black Olympics involving gang members and young people from seven cities.

Among the activities of the House of Umoja are crime prevention services, such as escort programs for the elderly, neighborhood patrols, and assistance to neighborhoods in the form of installing dead-bolt locks in the homes of the elderly and female-headed households. The security program at the House of Umoja has been very effective in reducing commercial and residential crime in the neighborhood. This activity is leading to prospects for economic development. The Fattahs are now building a Security Institute which, when completed, will house the training programs for hundreds of youth in security, first aid and life-saving techniques. The Institute will seek major contracts for security services for shopping malls, warehouses and factories.

YOUTH IN ACTION, CHESTER, PENNSYLVANIA

A group which also has shown considerable success where official social agencies have failed is Youth in Action in the high crime area of Chester, Pennsylvania. Founded through the energy and vision of Mrs. Tommie Lee Jones, the organization, staffed originally by nonprofessional volunteers, also worked with gang members and counseled them to positive activities. Encouragement has been provided to send many back to high school and on to college. Services include programs in day care, employment counseling and sports and recreation. Youth in Action also has put together an extensive career library for the youth of the community. Basketball is a very popular activity and the Youth in Action team has defeated many college junior varsity teams. This exposure to the college scene has also resulted in many youths returning to high school and continuing on to college.

Like Umoja, Youth in Action has been highly successful in delivering social services to youth where government programs have failed.

SAND, HARTFORD, CONNECTICUT

The South Arsenal Neighborhood Development Corporation in Hartford, Connecticut was conceived by local residents who originally organized to deal with government over issues of urban renewal. After their success in mediating between citizens and government, this group was asked by youth gang members to mediate between Hispanic and black gangs. After restoring the peace, the group extended its activities to a range of services in the community, including developing a unique concept called the Everywhere School which gets parents and the community more involved in the education of their youth. SAND's design for the Everywhere School has been adopted by many schools in the suburbs of Hartford.

These are the Bellvue Square housing projects, located in the heart of the SAND neighborhood—projects that were plagued with youth gang warfare and a high rate of crime. SAND spearheaded the construction of 262 new units of housing, with such features as external stairways to prevent the mugging incidents common in the other buildings. SAND also has responded to the need for housing for the elderly, without receiving any special funding for facilities for the elderly.

SAND is another clear example of a local group which, through its own initiatives, has been able to change the whole nature of its urban environment from within.

AEI has termed groups like these "mediating structures" because they are the natural organizations individuals choose to mediate between them and larger structures of society such as government and big business. Families, neighborhood groups, churches, ethnic and voluntary organizations are mediating structures chosen for study by AEI. The successful groups share these ingredients:

The goals and plans of the program are generated by the participants.

The participants are service providers, not recipients.

The program develops a self-containing economic base.

All these groups evolved in much the same way. A family or a group of local residents respond to a specific need in the neighborhood; youth crime, gang warfare, or the dislocation of urban renewal projects. As the group organizes, it begins to provide other services to the community. In an effort to survive, the group engages in economic enterprise, which then becomes possible because of the improvement in the civility of environment the group already has achieved.

The local groups AEI has studied have varying degrees of sophistication in the category of economic enterprise.

LA PLAYA DE PONCE, PUERTO RICO

Playa was long considered a place too dangerous to walk through and was, therefore, generally avoided by outsiders. Rates of juvenile delinquency and crime ran twice as high as those of Ponce itself. Playa had been written off as too problem ridden for effective programs of social reconstruction. Today there has been a dramatic reduction in youth crime and delinquency and a burst of economic activity as a result of the work of Sister Ferre of the Order of Missionary Servants of the Holy Trinity.

The Dispensario San Antonio, Inc. is a corporate name for the original program founded in 1948 to provide health care, the most critical need of neighborhood residents. Over the years, the Dispensario broadened its program activities and has evolved into a multi-purpose decentralized organization with programs in delinquency prevention, alternative education, community health and community development. La Playa project, as we refer to it, has developed an interesting concept for alternative and vocational education which it calls the Vocational Enterprise Project. This program focuses on manpower development rather than the generation of large profits. The vocational enterprise projects are designed with part-time, four-hour shifts so that as many participants as possible can take part in the education and vocational training.

One such project is the silk screen greeting card enterprise. During the first year of the enterprise, 6,000 cards were produced in three months, using four people on a part time basis. In 1980, they improved their production methods with eight full time people and produced 24,000 cards. In 1981 their target is 50,000 cards.

La Playa's agriculture project grows seedlings of coffee plants. Despite the fact that experts advised the La Playa project that coffee could not be grown in the Ponce area, the group managed to get a contract with the Agriculture Department of Puerto Rico to produce coffee plants for sale to coffee growers in the interior.

La Playa project also generates revenue from a small pottery enterprise which provides youth employment and training.

A new project, just begun, is a book binding company. Although this project is still technically in a vocational training stage, the rudimentary equipment is in place and residents are being trained in book binding techniques.

JEFF-VANDER-LOU, ST. LOUIS, MISSOURI

Another group that began as an unfunded organization mediating between local citizens and government, Jeff-Vander-Lou has become a highly successful community development corporation which has generated more than $22 million in capital development. Jeff-Vander-Lou has rehabilitated and constructed over 400 housing units, including these in which 100 elderly people reside with services for food, transportation and emergency medical facilities.

Jeff-Vander-Lou's day care facilities have attracted international attention, and the group is working on the design of its third facility which will accommodate 200 preschoolers. Jeff-Vander-Lou is educating residents with various communication tools it has developed, including a publication called Proud Magazine. With the assistance of a Mott Foundation grant, extensive training in photography and broadcasting is provided, and students broadcast news and other vital community information over the local high school radio station. The quality of the instruction they receive and the sophistication of the equipment rival the communication programs at many colleges.

Jeff-Vander-Lou has been very successful in creating employment for its residents through the development of labor intensive small businesses and industries. Jeff-Vander-Lou used land from its own land bank and, in collaboration with the Brown Shoe Company, constructed a new factory. Negotiations for the financing and construction were handled by Jeff-Vander-Lou. While the plant was under construction, the group undertook a training program for neighborhood residents with equipment provided by Brown Shoe. The factory employs many neighborhood residents and ranks in the top five in productivity among Brown's twenty-seven factories, and ranks first in the low incidence of overtime, absenteeism and non-deliveries. It also produces shoes at the lowest cost per 100 pairs.

With the experience and reputation gained through these accomplishments, each of these neighborhood organizations has set economic development goals in order to make their revitalization efforts self sufficient. Shopping malls, maintenance contracting firms, and other revenue generating enterprises are on these organizations' drawing boards. But these organizations face a number of hurdles which they must overcome in order to attain their goals.

The AEI neighborhood revitalization project is concerned with three sets of problems that these organizations face:

1. Exclusion from the revitalization and economic development planning process;
2. The lack of critical information on economic development; and
3. The burdens imposed on neighborhood organizations and other mediating structures by regulatory and administrative barriers.

We found examples of exclusion from the planning process in La Playa.

Sister Ferre's neighborhood organization was not consulted about the construction of this structure built for their community. Sister Ferre and her staff were ignored when they criticized the plan because it called for too much glass, which was inappropriate because of the climate and the astronomical air conditioning costs that would ensue, and because of the danger of shattering glass. Although neighborhood residents knew that water lay just two feet below the surface, the planners failed to make appropriate tests. The final plans were made and the bid accepted without the involvement of the neighborhood organization. Today the building stands with no sewage or water, no access road and without centralized air conditioning. Funds for the air conditioning had to be used to dump soil to provide a foundation for the building.

Without the neighborhood group's involvement in the planning and development process, outside planners also built an open air market for the La Playa community. The open air market stands empty today. Had the managers consulted local residents they would have known that the small shopkeepers would not move from their present location, where their stores serve as mediating structures.

The Unity Shopping Plaza, in Hartford, Connecticut, seems headed for the same fate. Despite studies indicating $14 million of consumer buying power in the local market, the support of the Hartford banking community, and the involvement of a black entrepreneur, poor retail mix and the fear of crime are causing the demise of this shopping plaza. The missing ingredient in the Plaza is a neighborhood organization which could help in the selection of the businesses that would go into the Plaza, and also assist with reducing crime and the fear of crime around the plaza. A new shopping plaza is planned, this time with the involvement of SAND, the local neighborhood organization.

In contrast, the Haddington Shopping Plaza in West Philadelphia has been developed and maintained with the assistance of local mediating structures. The Haddington neighborhood community organization was an integral part of the design and development phase. The House of Umoja Security Patrol provided protective services during construction and currently patrols the shopping plaza. As a result of the involvement of these groups, the Haddington Shopping Plaza is responsive to the needs of the community and free of the fear of crime.

The second problem area, lack of critical information on revitalization and economic development, is illustrated by this six-year-old housing development in Hartford.

The neighborhood organization dramatically improved the quantity and quality of housing in this area, but will be hard pressed to keep the development in good condition. As a result of the lack of critical information the facility is showing an inappropriate amount of deterioration. Here, the black-top has a large number of pot-holes because the contractor put down one inch of black-top rather than the required three inches; and underneath the steps the corrosion is at an advanced stage because of faulty construction and inferior materials. Unfortunately, tenants, in facilities such as these, are usually blamed for deteriorating conditions, rather than the poor construction and the inferior quality of material.

By contrast, these slides of the first facilities put up by the Jeff-Vander-Lou group in St. Louis show the fine product that can be obtained when the neighborhood group has the right information at the right time. These facilities are over ten years old.

The third problem area—the impact of regulatory and administrative barriers on the economic and revitalization efforts of neighborhood organizations—is the primary focus of the AEI project.

Mr. WOODSON. I will answer any questions.

Senator DURENBERGER. Thank you very much. Thank you for the slide presentation. It is a great preview to what we will hear from some people this afternoon and a good outline of the problems we are dealing with and the solutions you are recommending.

We will turn now to questions from our panelists. Mayor, do you want to start out with either a general comment, a reaction, or a question?

HENRY CISNEROS [MEMBER, REVIEW PANEL], MAYOR, SAN ANTONIO, TEX.

Mr. CISNEROS. Thank you, Senator. I do have a question for Mr. Woodson.

My own city has a strong tradition of neighborhood organizations involved in things ranging from crime watch activities to urban renewal, relocation activities, community development corporations, et cetera. I really am somewhat confounded by the lack of indications of where the capital, support money, has come from in these projects. There were several references that they started unfunded and were funded later. However, my experience—at least in my own city—is that it is a very, very hit-and-miss proposition when there is no support or seed money at all for these kinds of activities. When it is that hit and miss, it generally would only occur where there is the involvement of some individual, charismatic person totally outside of the norm of what you would expect of people in the neighborhood. I just wonder, as a society or as a major strategy of solving the problems of cities, whether we can depend on the existence of such an individual or family and not on some broader based strategy for providing incentives to create these kinds of things.

Mr. Woodson. I think we face the same situation when we talk about small business. As you know, Mayor, we have about 500,000 new small businesses each year. The mortality rate is 80 percent. Those that survive tend to produce 85 percent of all the jobs. That is a high-mortality rate.

The people we see here in the communities are also entrepreneurs. There is a high mortality rate among these people also. By providing a framework that encourages people to engage in these activities, and if we use our resources to encourage more risk taking and more entrepreneurial behavior, the mortality rate will still be high, but the potential of an IBM will also be present.

The question is, "What can we do within the urban environment to, first, encourage people to take more of the actions we saw here?" Most of the people we studied around the country, who are involved in preventing youth crime, are technically unqualified to do so because most State laws require them to have a master's degree in social work. The same is true with day care. So, we have a whole policy framework that requires professional accreditation as an important ingredient for the delivery of local services.

Senator Durenberger. Often money is no substitute for entrepreneurial spirit?

Mr. Woodson. No, it isn't. Most of these people, in the case of a small business, say that money is not always the critical problem. It is a problem.

Mr. Cisneros. In the House of Umoja there was no seed money to start them off?

Mr. Woodson. No; they started it. The Umoja program existed for 5 years hand to mouth, with various local groups helping. They set up a massive food distribution program which has been in existence for 13 years, and has operated in 14 places throughout the city of Philadelphia without any outside funds. They eventually received some State funds for purchases of services. This has brought about some dramatic changes.

Mr. Cisneros. They received money later?

Mr. Woodson. Yes, later on.

Mr. Cisneros. When you make a presentation like this morning, are you proposing this as a major, main strategy—if you will—that substitutes for other government programs? Or, are you saying this is one additional element that ought to be overlaid on top of the other things we are doing?

Mr. Woodson. I am saying I have studied, as others have, the failures of some of the massive programs. The fact is that we think we can parachute into San Diego, San Antonio, or Philadelphia solutions which have been designed in Washington or in the State capital that will apply the same programs to the Chicanos as well as to the blacks. What we have to do is recognize their cultures and traditions; we have to build programs based on those cultures; and we have to look to new places.

Mr. CISNEROS. If you were the mayor of a city, what specific things would you do to encourage the kinds of development where so-called entrepreneurial personalities are the difference?

Mr. WOODSON. First of all, I would do an inventory of what resources my city had, my people resources. I would make sure my staff went out and met with the local people and asked the young people where they turn to in times of trouble. I would seek out those people who were identified by the young people or others in distress. Then I would bring them all together, and say, "This is the social problem that our city faces and our people face. These have been our approaches to those problems. I would like to know from you how you would address these problems." I would then examine these and begin to launch major initiatives based upon the information gleaned from these folks, as opposed to just sending *x* amount of dollars to the social service system and assuming the problem is handled.

Mr. CISNEROS. Thank you.

Senator DURENBERGER. Ted?

TED KOLDERIE [MEMBER, REVIEW PANEL], FELLOW, THE HUBERT H. HUMPHREY INSTITUTE, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MINN.

Mr. KOLDERIE. What kind of supportive relationships do these groups tend to have, or would you like them to have, with the business community and the foundations in the cities where they exist?

Mr. WOODSON. One, I think foundations and businesses have to begin to support some of the entrepreneurs, people who take risks. Foundations tend to support those which are most secure. They would rather fund the 4-H Club, Girl Guides, Boy Scouts—nice, safe organizations. I think they have to begin to reach out and fund and provide support for those organizations that are outside of the traditional approaches.

Mr. KOLDERIE. Are you saying they don't fund the groups you are discussing?

Mr. WOODSON. They tend not to. As with the Federal Government funds, foundation funds tend to go to the Girl Scouts, the Boy Scouts, and the Campfire Girls. Of the 100 organizations that I surveyed, less than 10 percent receive any foundation support.

Mr. KOLDERIE. Is that true even though these are, as you describe them, successful organizations?

Mr. WOODSON. Yes; successful as determined by the people who are experiencing the problems. Sister Fattah, who is sitting here, has received proclamations from the mayor of the city recently for stopping groups of young people from attacking shoppers and virtually closing down a Philadelphia business district. She took her young people into the prison and got the support of inmates, who sent the word back to the city's streets. Her group has been in existence for 12 years. It has taken her that period of time to raise $800,000 to build the first urban Boys Town, while some professionals in the juvenile justice office raised $2 million by writing a grant proposal for their programs. In other words, the problems and the solutions are at one end of the column, but the resources are going to the other end.

A quick answer to your question: These groups need technical assistance. They need assistance in managing money. They need assistance in pricing and developing a business plan. They need all kinds of assistance that corporations could provide.

Senator **DURENBERGER**. Dr. Gray?

CHARLES M. GRAY [MEMBER, REVIEW PANEL], PROFESSOR OF ECONOMICS, COLLEGE OF ST. THOMAS

Mr. **GRAY**. A number of people, including several with whom we met yesterday, feel it is the responsibility of the public sector to fund such services, if there is a need to provide them. Presuming that, from the selection of alternative service providers with which you have presented us this morning and others from whom we will hear today, can you imagine what kinds of criteria might be used to select those most deserving of funding in all possibilities?

Mr. **WOODSON**. First of all, I don't think that I would agree that the first thing we think about when it comes to a problem is money. Money is not the most critical problem facing these groups or facing this society. There is a lot of money around. It is just being misspent.

We must begin the other way, first of all, and determine what has to be done by those we purport to help. Then we should determine what can be done by the private sector. What is it that people do?

There is a woman in this city who wants to set up a day care center. People in her own neighborhood will pay her to do this because she is performing a needed service to them. She has taken her life savings, trying to comply with the city's regulations. She exhausted all her life savings only to have the city tell her she doesn't quality.

I am saying that the regulations have to be examined to determine the benefits. The city could do a great deal if it would just reexamine the regulatory process and what can be done to reform it. It doesn't take money to do that. They shouldn't get involved in what kind of criteria—How do we know these people won't steal; they won't run off with the money?

The University of Pennsylvania has spent $20 million on juvenile justice research over the last 7 years, but has made not one recommendation of real help in dealing with youth crime.

Mr. **GRAY**. One followup question: Given the fact that among the more frequently asked questions is "How will you support yourself?" do you see the community-based agency being able to sidestep that and being able to develop a track record first?

Mr. **WOODSON**. Those that have the track record are not generating that kind of support. I think what most have said to me—and you will hear this directly from them—is that they really want an opportunity to support themselves, that many of the young people have a difficult time maintaining a job. Maybe that young person is a budding entrepreneur. Most entrepreneurs have a difficult time working for other people.

I think what we have to do is provide the kind of assistance that enables them to take advantage of the market opportunities in their own neighborhoods. Since crime is a critical problem affecting the viability of commercial activity, and these groups have demonstrated that they can control and prevent that complex problem, what they want to do now is to benefit from the fruits of their labor. I think we have a responsibility to identify what information and what kind of assistance they need. If money then becomes an element, then we need to provide it. However, if you dump $300,000 on a small businessman with a $100,000 volume, you could destroy him. It is how you use money that is critical. We always get bogged down in discussions of money.

Mr. **Gray**. As an ex-director of a community development corporation, I identify strongly with the things you have said, and I have a lot of sympathy.

Senator **Durenberger**. Any other last questions from anybody?

Mr. **Cisneros**. I am wrestling with a thought. It is difficult to see the programs you have described as dealing with the needs of a large number of people who are in need. They are successful in small doses. However, it is very difficult to deal with a mass problem. Therefore, I find it difficult to see them as substitutes, as some would want to do, for programs that we now have which are government supported. Some would suggest that, because these things are possible in small doses, it then justifies cutting out large programs and mass programs. I wonder whether that is what you are proposing.

Mr. **Woodson**. Absolutely not. I am not saying that at all, Mayor. What I am really saying is that it isn't either/or. I am not talking about government, in or out. Some people would abuse some people's desire to be self-sufficient or self-reliant. "OK, we will turn you loose. Let the force of the market bear on you and everything will be fine." I think that is cruel. There are others who believe that the aspirations of local people are defined in terms of those categories on the government grant application. That is equally foolhardy.

I think what we are really talking about is: What is that critical balance; what are the things that government should and should not do; what is it that neighborhood people can and should do; and what kind of assistance do they need? We know an awful lot about the successes and failures of government programs. We know very little about that rich connection in the neighborhood. Sister Fattah and her husband, just two people, were responsible for solving a city's gang problem. I am from Philadelphia. If someone had told me that anyone could solve the gang problem in Philadelphia, I would have told them they were crazy. So, it is possible for people, a few people, in a city to have a gigantic impact; but it is in its embryo. We are not accustomed to going to untrained people who break verbs, split infinitives, and dangle participles and expect them to do anything.

Senator **Durenberger**. Thank you for the question.

Thank you, Mr. Woodson, for an excellent presentation. You are a very good keynote for this morning's and this afternoon's program.

[The prepared statement of Mr. Woodson follows:]

FORUM ON ALTERNATIVES TO PUBLIC SERVICE DELIVERY

United States Senate

Subcommittee on Intergovernmental Relations

Presented by:

Robert L. Woodson, Resident Fellow
The American Enterprise Institute for
Public Policy Research

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The views I am about to present are my own and do not necessarily represent those of the American Enterprise Institute, where I am currently in residence.

I appreciate the opportunity to speak before this Senate Forum on Alternatives to Public Service Delivery. This meeting represents one of the few instances when a member of the Senate has demonstrated a clear interest in seeking alternative approaches to solving some of this country's age-old social problems. Later this afternoon, a panel of grassroots leaders will address this body to share some of their personal triumphs and frustrations in their attempt to serve their communities. It is indeed rare to invite those who are in the trenches of our urban neighborhoods, often risking their lives to make their community a healthier place to live. You are to be commended, Senator Durenburger, for providing them a much-needed public forum.

For years, government has promised to uplift the poor; and, for years, it has failed to deliver. The millions of dollars spent annually on government and privately-sponsored research have produced few useful policy recommendations. In fact, what our ill-spent dollars principally seem to have purchased is a permanent lobby for increased research expenditure.

In the wake of urban violence in Miami, Chattanooga, and Los Angeles, civil rights and other organizations which purport, or attempt, to represent poor blacks and other disadvantaged groups, renewed their calls for increases in federal social program expenditures. A now familiar process begins: government outlays are made to finance professionally designed crash programs and studies to treat or assess the pathology of the poor. Impressive quantities of data are gathered detailing the harsh conditions that confront the poor. This information is then used in testimony before various congressional committees and foundation boards to justify massive spending increases for social welfare bureaucracies. New programs are launched, which fail, and the poor become restless. Occasional violence then errupts, and the cycle begins again.

Despite evidence that many social programs which purportedly benefit low income people either hurt them or are only marginly useful to them, a total of $250 billion is spent annually for social service and entitlement programs. Of this amount, $87.5 billion is spent directly by the state and federal government on poverty programs.

Upon close scrutiny, it is obvious that many of the programs designed by the "best and brightest" of the social welfare elite not only fail to reach their intended recipients, but in some cases actually excerbate the very problem they are intended to solve.

If it is true that increased expenditures on orthodox social service programs seem to be producing diminishing, and sometimes even negative returns, for the poor, what is to be done?

Two independent studies show that when faced with a crisis of some kind, 80 percent of the poor turn to individuals within their own neighborhoods for help. When asked to list those individuals from whom help was sought, the top seven listed by residents of poor neighborhoods were other neighborhood residents--ministers, friends, family members, hairdressers and the like. The professional service provider only came in eighth. Yet, we have maintained extraordinary expenditures despite evidence that public policy has been investing our resources in the institutions of least and last choice for those in need. Not only are neighbors and friends more important to the poor in some special crisis or time of need, but they are actually more effective.

Over the past five years, the American Enterprise Institute's Mediating Structures Project has examined the role of churches, ethnic sub-cultures, families, neighborhoods and voluntary associations in solving a variety of education, health, housing, law enforcement and welfare problems. The project research has added considerable detail to our knowledge of the extent and variety of resources applied by grassroots people themselves to the solution of problems they confront in life.

My own research began in high crime, urban areas where untrained, but strongly motivated, adults are helping to control youth crime successfully. Public funding for rehabilitation and deterrence of young offenders has been directed mostly to the care of PINS (Persons in Need of Supervision) or status offenders who are found by credentialed professionals to be easier to work with. The violent, troubled youth of our urban centers, who actually commit most of the serious crime that frightens the public, have been neglected by professional youth care services. These urban youngsters, mostly poor, black and minority boys, have been typically warehoused in Juvenile Justice custody, resulting in increased race and class segregation in jails and detention centers for youth.

The timely appearance in so many urban centers of voluntary neighborhood helpers, who actually succeed with the delinquent children neglected and rejected by professional care, is of great significance for future public policy toward youth crime control. My research details the similarities and successes of grassroots youth rehabilitation projects.

In addition, I have been studying other neighborhood revitalization projects developed by local talent and resources. Unfortunately, the demonstrated ability of neighborhood-based associations and networks to solve a range of social and economic problems have been overlooked by most researches and policy makers. Even where the value of self-help efforts is acknowledged by professional organizations, able and enterprising projects to restore the economic and social structures of urban communities confront a tangle of formal restrictions coming from official agencies of government. In addition to learning effective development strategies as they go along, self-help networks must learn how to deal with "city hall."

Our recent research gathers data on the design, implementation and operation of community revitalization programs in progress and searches out areas where changes in public policies might increase the effectiveness of programs examined.

Most often, policy debate concerning the poor and their neighborhoods almost always centers on pathology, rather than potential. Such discussions inevitably tend to produce prescriptions which prevent bad things from happening, rather than to assist potential good to occur. In this context, money and programs to maintain, defend or alter the poor tend to have the perverse effect of perpetuating the conditions addressed. Residents of problem areas are seen as dependent clients, service delivery bureaucracies expand to service these clients and subsequent initiatives toward self-help are ignored, disparaged or openly blocked through the application of regulatory devices designed to govern professional service delivery agencies.

Neighborhood self-help projects with real potential for effective service delivery must include people who are tough, sensitive, informed, courageous and energetic about some of the most resistant and complex sociological problems. They also have to fund themselves, fight city hall and disentangle themselves from whatever formal or legal barriers there are against so-called untutored, non-professional, unlicensed, problem-solving activities. Public policy itself blocks the full utilization of this indigenous resource.

The role the government should adopt is to supplement, not supplant, these initiatives. Ways must be found to locate incipient (or developed) self-help initiatives; studies should be made of the strengths and achievements of these groups for information sharing with other likely resource people; and, ways must be found to support, not hinder, their activities. I am encouraged that this forum today is convened especially to consider this question.

Throughout the country there are community members who have used their own resources to deal with social problems that have defied solution by large social service institutions. Since all of these programs are private initiatives, responding to specifics of different contexts, each group and its activities and history shows unique features, yet all have a structural factor in common. The programs are initiated by friends, relatives and neighbors—the people of first choice. As a result of the accountability of these service providers to their "clients," the authority and respect they enjoy with those they try to help is effective and emphatic. No professional service group of outsiders can approximate this.

The House of Umoja, Philadelphia, Pennsylvania

Over the past years there has been a marked decline in the incidence of gang deaths and juvenile crime in Philadelphia. The persons largely responsible are David and Falaka Fattah the founders of the House of Umoja.

The Fattahs began their work from a concern about the almost daily killing of black youths engaged in gang warfare in West Philadelphia, a concern that was intensified when they learned that one of their six sons was a member of a street gang.

The Fattahs extended an invitation to the gang members to live in their home. Sister Fattah relates that the only commitment the family made to the young people was to help them stay alive and to keep them out of jail. The Fattahs found that the youths turned to gangs because the gang structure provided security, acceptance and defined expectations. The Fattahs substituted the extended family concept for the gang, and positive activities chosen by the youth themselves were substituted for crime and violence.

Despite its shoestring operation, Umoja survivied and attracted other street youth looking for shelter. The years of neglect are evident on Frazier Street. Umoja has purchased twenty-one houses on the block, and has rehabilitated half of these buildings for youth residences and office space. Most of the renovation of the interiors is done by youths at the House of Umoja

Some five hundred gang members from seventy-three different street gangs have been sheltered and as the family grew so did the concept. Umoja has instigated youth gang conferences and meetings with street gang members to spread the idea of Imani and pacts of peace. The result is that gang deaths, which averaged more than forty a year a few years ago, have dropped to approximately one a year in the past few years. The House of Uomja has also organized the Black Olympics involving gang members and young people from seven cities.

Among the activities of the House of Umoja are crime preventon services, such as escort programs for the elderly, neighborhood patrols and assistance to neighborhoods in the form of installing dead-bolt locks in the homes of the elderly and female-headed households. The security program at the House of Umoja has been very effective in reducing commercial and residential crime in the neighborhood. This activity is leading to prospects for economic development. The Fattahs are now building a Security Institute which, when completed, will house the training programs for hundreds of youth in security, first aid and life-saving techniques. The Institute will seek major contracts for security services for shopping malls, warehouses and factories.

SAND, South Arsenal Neighborhood Development Corporation

The South Arsenal Neighborhood Development Corporation in Hartford, Connecticut, was conceived by local residents who originally organized to deal with government over issues of urban renewal. After their success in mediating between citizens and government, this group was asked by youth gang members to mediate between Hispanic and black gangs. After restoring the peace, the group extended its activities to a range of services to the community, including developing a unique concept called the Everywhere School which gets parents and the community more involved in the education of their youth. SAND's design for the Everywhere School has been adopted by many schools in the suburbs of Hartford.

The Bellvue Square housing project, plagued with youth gang warfare and a high crime rate, is located in the heart of the SAND neighborhood. SAND spearheaded the construction of 262 new housing units, with such features as external stairways to prevent the mugging incidents common in other buildings. SAND also has responded to the need for housing for the elderly, without receiving any special funding for facilities for the elderly.

SAND is another clear example of a local group which, through its own initiatives, has been able to change the whole nature of its urban environment from within.

AEI has termed groups like these "mediating structures" because they are the natural organizations individuals choose to mediate between them and larger structures of society such as government and big business. Families, neighborhood groups, churches, ethnic and voluntary organizations are mediating structures chosen for study by AEI. The successful groups share these ingredients:

- The goals and plans of the program are generated by the participants.
- The participants are service providers, not recipients.
- The program develops a self-containing economic base.

All of the groups studied evolved in much the same way. A family or a group of local residents respond to a specific need in the neighborhood: youth crime, gang warfare, or the dislocation of urban renewal projects. As the group organizes, it begins to provide other services to the community. In an effort to survive, the group engages in economic enterprise, which then becomes possible because of the improvement in the civility of environment the group already has achieved.

The local groups AEI has studied have varying degrees of sophistication in economic enterprise.

La Playa de Ponce, Puerto Rico

Playa was long considered a place too dangerous to walk through and was, therefore, generally avoided by outsiders. Rates of juvenile delinquency and crime ran twice as high as those of Ponce itself. Playa had been written off as too problem ridden for effective programs of social reconstruction. Today there has been a dramatic reduction in youth crime and delinquency and a burst of economic activity as a result of the work of Sister Ferre of the Order of Missionary Servants of the Holy Trinity.

The Dispensario San Antonio, Inc. is a corporate name for the original program founded in 1948 to provide health care, the most critical need of neighborhood residents. Over the years, the Dispensario broadened its program activities and has evolved into a multi-purpose,decentralized organization with programs in delinquency prevention, alternative education, community health and community development. La Playa project, as we refer to it, has developed an interesting concept for alternative and vocational education which it calls the Vocational Enterprise Project. This program focuses on manpower development rather than the generation of large profits. The vocational enterprise projects are designed with part-time, four-hour shifts so that as many participants as possible can take part in the education and vocational training.

One such project is the silk screen greeting card enterprise. During the first year of the enterprise, 6,000 cards were produced in three months, using four people on a part time basis. In 1980, they improved their production methods with eight full-time people and produced 24,000 cards. In 1981 their target is 50,000 cards.

La Playa's agriculture project grows seedlings of coffee plants. Despite the fact that experts advised the La Playa project that coffee could not be grown in the Ponce area, the group managed to get a contract with the Agriculture Department of Puerto Rico to produce coffee plants for sale to coffee growers in the interior.

La Playa project also generates revenue from a small pottery enterprise which provides youth employment and training.

A new project, just begun, is a book binding company. Although this project is still technically in a vocational training stage, the rudimentary equipment is in place and residents are being trained in book binding techniques.

Jeff-Vander-Lou, St. Louis, Missouri

Another group that began as an unfunded organization mediating between local citizens and government, Jeff-Vander-Lou has become a highly successful community development corporation which has generated more than $22 million in capital development. Jeff-Vander-Lou has rehabilitated and constructed more than 400 housing units, including ones in which 100 elderly people reside with services for food, transportation and emergency medical facilities.

Jeff-Vander-Lou's day care facilities have attracted international attention, and the group is working on the design of its third facility which will accomodate 200 preschoolers. Jeff-Vander-Lou is educating residents with various communication tools it has developed, including a publication called *Proud Magazine*. With the assistance of a Mott Foundation grant, extensive training in photography and broadcasting is provided, and students broadcast news and other vital community information over the local high school radio station. The quality of the instruction they receive and the sophistication of the equipment rival the communication programs at many colleges.

Jeff-Vander-Lou has been very successful in creating employment for its residents through the development of labor intensive small businesses and industries. Jeff-Vander-Lou used land from its own land bank and, in collaboration with the Brown Shoe Company, constructed a new factory. Negotiations for the financing and construction were handled by Jeff-Vander-Lou. While the plant was under construction, the group undertook a training program for neighborhood residents, using equipment provided by Brown Shoe. The factory employs many neighborhood residents and ranks in the top five in productivity among Brown's twenty-seven factories, and ranks first in the low incidence of overtime, absenteeism and non-deliveries. It also produces shoes at the lowest cost per 100 pairs.

With the experience and reputation gained through these accomplishments, each of these neighborhood organizations has set economic development goals in order to make their revitalization efforts self sufficient. Shopping malls, maintenance contracting firms, and other revenue generating enterprises are on these organizations' drawing boards. But, these organizations face a number of hurdles which they must overcome in order to attain their goals.

The AEI Neighborhood Revitalization Project is concerned with three sets of problems that these organizations face:

1. Exclusion from the revitalization and economic development planning process;
2. the lack of critical information on economic development; and,
3. the burdens imposed on neighborhood organizations and other mediating structures by regulatory and administrative barriers.

We found examples of exclusion from the planning process in La Playa.

Sister Ferre's neighborhood organization was not consulted about the construction of a structure built for their community. Sister Ferre and her staff were ignored when they criticized the plan because it called for too much glass. The glass was inappropriate because of the climate and the astronomical air conditioning costs that would ensue, and because of the danger of shattering glass. Although neighborhood residents knew that water lay just two feet below the survace, the planners failed to make appropriate tests. The final plans were made and the bid accpeted without the involvement of the neighborhood organization. Today, the building stands empty, with no sewerage or water, no access road and no centralized air conditioning. Funds for the air conditioning had to be used to dump soil to provide a foundation for the building.

The Unity Shopping Plaza, in Hartford, Connecticut, seems headed for the same fate. Despite studies indicating $14 million of consumer buying power in the local market, the support of the Hartford banking community, and the involvement of a black entrepreneur, poor retail mix and the fear of crime are causing the demise of this shopping plaza. The missing ingredient in the plaza is a neighborhood organization which could help in the selection of the businesses that would go into the plaza and also assist with reducing crime and the fear of crime around the plaza. A new shopping plaza is planned, this time with the involvement of SAND, the local neighborhood organization.

In contrast, the Haddington Shopping Plaza in West Philadelphia has been developed and maintained with the assistance of local,mediating structures. The Haddington neighborhood community organization had an integral part of the design and development phase. The House of Umoja Security Patrol provided protection services during construction and currently patrols the shopping plaza. As a result of the involvement of these groups the Haddington Shopping Plaza is responsive to the needs of the community and free of the fear of crime.

The second problem area, lack of critical information on revitalization and economic development is illustrated by a six-year-old housing development in Hartford. The neighborhood organization dramatically improved the quality and quantity of housing in the area, but will be hard-pressed to keep the development in good condition. As a result of the lack of critical information, the facility is showing an inappropriate amount of deterioration. The blacktop has a large number of potholes because the contractor put down one inch of blacktop, rather than the required three inches; and, underneath the steps, corrosion is at an advanced stage because of faulty construction and inferior materials. Unfortunately, tenants are ususally blamed for deteriorating conditions, rather than the poor construction and the inferior quality of material.

By contrast, the first facilities put up by the Jeff-Vander-Lou group in St. Louis show the fine product that can be obtained when the neighborhood group has the right information at the right time.

The third problem area—the impact of regulatory and administrative barriers on the economic and revitalization efforts of neighborhood organizations—is the primary focus of the present AEI project.

My own purpose has always been to try to give visibility to these true helpers and their true solutions. Herein lies the role for future research and public policy. Since what we have been doing to and for the poor has failed, we have to go back—not to the drawing board—but to the real world to draw up the policy plans of tomorrow.

Policy Recommendations

- The principal aim of public policy should be to strengthen the capacity of economic institutions within neighborhoods, and to identify and support activities that will create wealth within the communities as well as increase the resilience and diversity of the economies. Programs should be designed to produce the fullest employment of the resources of the neighborhood, including its people, its indigenous capital, and its land.
- A principal policy objective should be to increase the number of firms that are created or expanded within a neighborhood. An inventory of existing neighborhood enterprises should be made to determine which ones demonstrate unique and promising features.
- In accordance with the minimalist proposition of the mediating structures paradigm, under no circumstances should public policy directly involve larger bureaucratic institutions in establishment of a local mediating structure. Nor should public policy

intervene directly in the operation of a local structure or otherwise exercise control over its decision-making process. Any program of economic aid should not depend on subsidy for its long-term continuation.

- Public policy should be based on an accurate understanding of the true costs of and returns to local activities--not simply the internal returns and costs of development ventures.
- Various strategies of income transfer investment should be supported as a means of increasing the amount of money available for investment in existing neighborhoods.
- Building codes, zoning restrictions, and other regulatory mechanisms should be carefully reviewed to determine whether they represent a legitimate protection of public interest or whether such codes and statutes protect only special interests.

Thank you.

Senator DURENBERGER. Our next witness is Laurence Van Meter who is the executive director of the Appalachian Trail Conference. ATC is a nonprofit organization with more than 60 volunteer groups and 15,000 individual members who provide trail maintenance and a range of other recreational services. Mr. Van Meter started as a volunteer with ATC in 1970 and become its director this year.

We are pleased you are here to add some additional dimensions to the kinds of needs we want to examine in terms of alternative systems for providing services. You will have about 10 minutes or so for a presentation. Then you know the ground rules on questions. Thank you for being here.

TESTIMONY OF LAURENCE R. VAN METER, EXECUTIVE DIRECTOR, APPALACHIAN TRAIL CONFERENCE, HARPERS FERRY, W. VA.

Mr. VAN METER. Thank you, Senator. I will try to keep it as short as I can. One thing that may help is a package of items I have brought along that perhaps the panelists can look at as I am talking.[1]

I do appreciate having the opportunity to be here to tell you about the Appalachian Trail Conference. With your concurrence, I will briefly summarize my written statement and elaborate on a few of my recommendations. I will be happy to answer questions either during my presentation or following it.

The Appalachian Trail is the longest continuous footpath in the world, running some 2,100 miles from Georgia to Maine. Work on the trail began in 1922 and was completed in 1937. Although many parts of the trail have been relocated over the past 50 years, for the most part it still follows the main range of the Appalachian highlands.

The providing of hiking trails, overnight camping facilities, maps, and similar public services is usually considered the province of public agencies. Despite longstanding cooperation with the National Park Service, the U.S. Forest Service and State agencies, the Appalachian Trail remains essentially a private venture lead by some 63 nonprofit volunteer trail clubs.

The work of these clubs is coordinated by the Appalachian Trail Conference, a nonprofit organization of which I am the executive director. The ATC was founded in 1925 and is headquartered in Harpers Ferry, W. Va., just 1 or 2 miles from where the train crosses the Potomac. The work of our staff of 10 at Harpers Ferry, plus 3 regional field representatives, is supported in large part by annual dues from the 15,000 members, the sale of guidebooks and other publications, and contributions from the members. Literally thousands of volunteers from Maine to Georgia are involved in every aspect of trail management. The value of just this basic trail maintenance and reconstruction contributed by the clubs each year has been estimated by the National Park Service at over $1 million. In addition, the clubs, the Conference, or both, are involved in duties ranging from shelter and outhouse construction, to guidebook editing, to management plan writing, to trail management research projects.

The Conference and its clubs also sponsor hiker education on the trail through the use of volunteers, seasonally employed caretakers, and ridge runners—people actually out on the trail talking to people.

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[1] Material retained in subcommittee files.

The main theme in all these efforts is to provide a high-quality service at little or no cost to the public. In my written statement I emphasize that the goal the Conference has set for itself in the past 15 years is to provide a permanent, protected corridor for the Appalachian Trail. The route of the trail has sometimes been compared to a 2,000-mile-long snake—held by the head in Maine and by the tail in Georgia and wriggling freely in between. Land development and landowner problems have forced frequent relocation of the trail in recent years. Often, the only way to get through is on public highways, which contributes to the deterioration in the quality of the trail. I refer you to my statement for information on the efforts to provide permanent protection for the trail.

I would like to emphasize here the importance the Conference, the clubs, and the millions of trail users attach to the completion of private land acquisition, begun by the National Park Service in 1978. This program is a fine example of public and private organizations working toward a common goal. Better than two-thirds of the trail is now in public hands; but unless authorized Land and Water Conservation Fund moneys are made available soon to complete the task, the trail may be severed irreparably.

Rather than elaborate further on the need to protect the trail, I would like to cover the advantages as we see them of nonprofit organizations in public recreation management. Nonprofits can provide a level of commitment to a public resource that is difficult to duplicate in professionally staffed government agencies. In the Appalachian Trail Conference and its member clubs there are numerous examples of not only people spending an entire lifetime of voluntary commitment on a particular part of the trail, but also of a second and third generation of those same family groups exercising stewardship of that same part of the trail.

Volunteers can also provide local participation and a level of knowledge of specific areas which is highly valuable.

Finally, and perhaps most importantly, nonprofit organizations can provide public services that are of high quality and, at the same time, less expensive than a government agency can provide with its inevitable bureaucracy and overhead cost. Whether or not one accepts the philosophical premise for promoting nonprofit involvement in recreation management, the practical issue of cost effectiveness is, we feel, a very persuasive argument for a strong nonprofit role.

A word of caution may be important here. Nonprofits, and particularly those relying heavily on volunteer initiative, are vulnerable to insensitive treatment by government agencies. Volunteers get involved in projects for two main reasons: To fulfill a sense of public commitment, and to enjoy the actual work. When regulations, restrictions, and general redtape get between volunteers and their work, the pleasure they derive from the spontaneity and productivity of their activities is likely to flounder. Getting five or six approvals before an outhouse can be built will dampen anyone's enthusiasm!

Nonprofit organizations, such as the ATC, retain small staffs to cope with redtape, but small staffs are no match for large government bureaucracies that may require elaborate reporting and accountability procedures. If the cost effectiveness of nonprofit organizations is to be exploited, as we hope it will be, government procedures must be kept as simple as possible. For that reason, my written statement stresses the need for a Federal policy that recognizes the importance and desirability of nonprofit involvement in recreation management and that encourages public agencies to take advantage of such involvement.

My statement also recommends that, in specific cases, consideration be given to partial or full reimbursement of nonprofits for specific services rendered. The Appalachian Trail Conference, for example, has a cooperative agreement with the National Park Service which provides financial support. This enables the Conference to provide services that would cost the National Park Service two or three times as much if pursued through regular Federal channels. We recommend that similar arrangements be encouraged by other government agencies as well.

I would like to conclude with a specific case that deals with many of these questions. The U.S. House of Representatives is presently giving consideration to a bill, H.R. 861, that would amend the National Trails Act of 1968. This bill would, in part, broaden the role of nonprofit organizations in trail management. Specifically, the bill states:

> The Congress recognizes the valuable contributions that volunteers and private, nonprofit trail groups have played in the development and maintenance of the Nation's trails. In recognition of these contributions, it is further the purpose of this Act to encourage and assist volunteer citizen involvement in the planning, development and management of trails.

Among other things, the bill provides for liability protection and sets up a system for occasionally reimbursing trail organizations for their expenses in providing public services—similar to what my written statement recommends.

To conclude, then, I hope both the House and Senate will give H.R. 861 thorough consideration, and act favorably on its provisions.

Senator **DURENBERGER.** Thank you very much. We will begin our questions in the middle this time with Ted Kolderie.

Mr. **KOLDERIE.** I was just going to ask if you can think of any other conspicuous examples of this kind of thing which are broadly throughout the recreation field.

Mr. **VAN METER.** I think the thing that comes first to mind are the activities that the member clubs of the Appalachian Trail Conference have pursued. Many of these organizations, particularly the Appalachian Mountain Club of Boston, which is over 100 years old, pursue many other activities besides the management of the Appalachian Trail. So, currently, there are broader applications other than simply the Appalachian Trail. My exposure is primarily in the East and primarily with trails.

Mr. **KOLDERIE.** I was just going to say it reminds me a lot of something we came across in the whole area of youth sports. I hadn't realized that, up until the financial crises of the Depression, the public schools ran organized interscholastic athletic competition below the high school level. They withdrew from that under budget pressures, and never went back into it.

It is amazing when you look at how many organized activities there are for kids of all kinds done by parent-run organizations. Usually these activities are done on public facilities but are organized by volunteer groups, for all kinds of intercommunity and interschool sports at the grade school level. Sometimes we think a big job can't be done by anything other than a big organization. However, when you look, it is possible to have a big job done by a large number of small organizations.

Mr. **Van Meter**. One point in following up: Perhaps the most conspicuous example of that, in the nonprofit sphere, is the summer camp program run throughout the country, often by nonprofit organizations. Some are family-owned or corporate, but many nonprofits run camps for youth throughout the country.

Senator **Durenberger**. Dr. Gray?

Mr. **Gray**. First, one observation or expression of concern: You mentioned the cost effectiveness of voluntary organizations. I am aware that there is a cost incurred that doesn't show up, and that is the cost of the volunteer's time. That is a valuable resource. If that were included, I am wondering whether it would still be cost effective. I don't know if we have that answer close at hand. I just wish to express that as a concern.

One general question: I am curious whether or not you have sought payments from users of the trail in any way—those who can't give their time, but can send in $1 or $2.

Mr. **Van Meter**. Many of our members live in areas other than trail States, and their membership dues are a way to contribute to the operation of the trail.

Mr. **Gray**. How about those who don't choose to become members? Can you imagine some mechanism by which they can be enticed to contribute a little bit for having enjoyed what you have put so much time into?

Mr. **Van Meter**. Not without some sort of government taxation program like the one which has been proposed on hiking equipment, which we have generally opposed. We need to do a better job of informing hikers and other users who we are and of our need for their support.

In response to your point about volunteer time, we would not envision putting in for any reimbursement of volunteer time. It would simply be for out-of-pocket costs.

Senator **Durenberger**. I will just ask one question as a followup to that, because it has been a concern to me. What Dr. Gray was getting at, in part, is one of the issues which came up yesterday in terms of user fees as an alternative to public financing, or as a compatible part of public financing particularly for operational expenses for facilities.

Let me talk specifically about the issue you raised of opposing taxes on hiking equipment. One of the great inequities is that some of the recreational users in many States in this country welcome a tax or a license as a form of their contribution to the cost of operation. In my own State I am thinking particularly about snowmobiles which are compared to boats. They are relatively heavily taxed. That money goes into maintenance of facilities.

There seems to be a lot of resistance, though, from other organizations to participate in the cost of operation through a tax or a license fee. This is usually a preferable alternative to entrance fees or something like that, even though these may make more sense—the one who uses it the most is paying the most. However, it is so hard to administer and it has an inequity of keeping a lot of people out of the system.

Do you have a view on the role that users of this country's recreational facilities should play in financing the maintenance and operation of those facilities?

Mr. Van Meter. I think there can be more done. Again, in the specific case of trails and of charging fees for the use of specific facilities—our main objection to license fees and taxes has been our argument on cost effectiveness. So much of that cost gets gobbled up.

Senator Durenberger. In the six permits to build an outhouse?

Mr. Van Meter. Right. We are afraid that not too much of the revenue would get down to where it is needed. I would rather see it as a private sector concern and get the word out through publications—through our material—to people whom we know are interested in recreation to step forward.

Senator Durenberger. Mayor?

Mr. Cisneros. Let me, first of all, compliment you on the work which the Appalachian Trail Conference has done. There is a great reservoir out there—Mr. Kolderie used the example of youth athletics, and one might add the libraries in cities, or any number of other such things.

Recognizing that the government at all levels—Federal, State, and local—have statutory responsibility for such things as maintaining parks, running libraries, et cetera, what would you suggest as a kind of a general principle that ought to bind the relationship between governments and volunteers—nonprofit organizations, such as yourself? You talked in terms of creating policy that favors the provision of recreational programs for the public by nonprofits. However, when one writes or works on national policy, there are just thousands of possible configurations. I just wonder what would be the most important principle to you, as you envision it, in the relationship between your organization and the Federal Government? Is it just tolerance for, or an urging of sensitivity toward? What is it that would be the most important thing?

Mr. Van Meter. I guess for us it would be an understanding of the National Park Service and the U.S. Forest Service, which I think is something we have now. I know it has been a long time coming, that is, a recognition that volunteers—amateurs, if you will—can do as good a job as professional staff people at much less expense; and that is the desirable thing for the American people. Hopefully, the policy would come from Washington and be endorsed locally to involve nonprofit organizations. I think organizations assisting in recreational management have to have a track record. I don't think we would recommend that the U.S. Forest Service seek out some little-known organization without a track record to help manage a large recreational facility. I think that would be a mistake. There needs to be some timelag there, or some period of time in which the organization has given at least some indication that it can handle those responsibilities.

Mr. Cisneros. Thank you.

Senator Durenberger. Thank you very much, Mr. Van Meter.

[The prepared statement of Mr. Van Meter follows:]

PREPARED STATEMENT OF LAURENCE R. VAN METER

FOR: Forum on Alternatives to Public Service Delivery
Senate Subcommittee on Intergovernmental Relations

DATE: July 29, 1981

The Appalachian Trail Conference

The Appalachian Trail Conference was founded in 1925 to serve as an umbrella organization for the volunteer hiking clubs that built and maintain the Appalachian Trail ("A.T.") The Trail is a primitive footpath passing through some of the finest backcountry areas in the East as it follows the main range of the Appalachians for some 2100 miles from Georgia to Maine.

Today, the Appalachian Trail Conference (ATC) is composed of sixty-three clubs that maintain portions of the A.T., as well as 15,000 individual members nationwide. The Conference maintains permanent headquarters near the Trail in Harpers Ferry, West Virginia, and has three field offices: Southern Virginia (Blackburg), Hudson River Valley (Staatsburg, N.Y.), and New England (Norwich, Vermont).

The Need for this Service

The clubs of the Appalachian Trail Conference responded to a need first articulated by Benton MacKaye in an article he wrote in 1921 for the Journal of the American Institute of Architects entitled "The Appalachian Trail, An Experiment in Regional Planning." Even sixty years ago, MacKaye was concerned about Americans' increased leisure time without corresponding growth in high quality recreational opportunities.

Hiking trails, particularly in the Northeast, were not new even at the time MacKaye wrote his article proposing the Appalachian Trail. The oldest of the ATC member clubs, the Appalachian Mountain Club of Boston, founded in 1876, and the Green Mountain Club of Vermont, founded in 1910, were already maintaining hiking trails for public use. They saw a need, and stepped forward to provide a public service. As the early literature of the Green Mountain Club states, the Club's purpose is to allow the mountains "to play a larger role in the lives of the people."

For the most part, these earliest activities predate the establishment of National Parks and National Forests in the East. Since government agencies were not available to provide hiking trails and facilities, the idea of federal leadership wasn't seriously considered.

The Result

The goal of this effort by hundreds of volunteers was to provide a public hiking trail, primitive in nature, running as much as practicable the full length of the Appalachian chain. The goal was realized in 1937 with the completion of the Trail from Mount Ogelthorpe in Georgia to Katahdin in Maine.

What Role Did the Appalachian Trail Conference Play?

The Conference coordinated the building of the Appalachian Trail, and provided a central source for information on the Trail. General meetings held every two or three years served to bring together member clubs and other interested people from all over the East to discuss and plan for the future of the Trail. A volunteer Board of Managers made up of individuals representing trail clubs from up and down the Trail ran the affairs of the Conference. This basic arrangement remains in force today.

The Conference plays a central role in coordinating efforts to manage and protect the Trail. Through its publications, headquarters staff, field representatives, and volunteer network, information is shared quickly and clearly with maintaining clubs and cooperating government agencies.

Problems Confronting the Appalachian Trail

Once the Trail itself was completed, the main problem for the Appalachian Trail Conference was to provide a permanent Trail route free from incompatible development. Following World War II, a boom in the development of mountain lands, previously considered to be of little commercial value, led to intensive recreational development in the form of ski resorts, second homes, and scenic highways. This trend has continued, for the most part, unabated to the present. Ironically, as demand for developed mountain recreation has increased, the popularity of undeveloped, backcountry-type recreation such as hiking and canoeing has grown as fast, or faster. In the 1960's and 1970's, use of the Appalachian Trail doubled roughly every six years. Today, estimates of annual use run into the millions, and with parts of the Trail within a day's drive of at least half the nation's population, use is not expected to decrease.

For the past fifteen years, the Appalachian Trail Conference has concentrated on solving this problem, for incompatible development of mountain areas and trail closures by private landowners have repeatedly forced the A.T. off the ridge of the Appalachians, and onto inferior routes. By 1978, more than 200 miles of the Trail were located on public roads and highways.

Providing a Permanent Route for the Trail

Since work on the Appalachian Trail began in 1922, a number of National Parks and National Forests have been established in the East. By the 1960's, nearly two-thirds (all but 800 miles) of the Trail was on public land within these or other governmental units. Close working relationships with Forest Service, Park Service, and state units have enabled the trail clubs to continue and expand their traditional trail maintenance responsibilities.

Where located on public land, the Trail was relatively safe from encroachment. Protection of the remaining 800 miles of Trail on private lands was, however, becoming increasingly difficult. In recognition of this problem, in 1968 at the urging of the Conference and other outdoor organizations, the National Scenic Trails System Act (PL 90-543) was passed. In this legislation, Congress recognized the federal responsibility to protect the entire Appalachian Trail, and designated it as one of the first National Scenic Trails. Unfortunately, relatively insignificant funding was provided for the purchase of rights-of-way, and little actual trail protection occured. In 1978, in recognition of deteriorating conditions on the Trail, Congress amended the earlier Act by authorizing (PL 95-248) a total of $90 million over three years for the acquisition by the National Park Service of a protective corridor on the remaining private lands along the Trail route.

Thus far, appropriations have fallen short of the authorization. Through FY 1981 about $35 million has been appropriated, and roughly one-third of the 800 miles of formerly unprotected Trail has been acquired. We are hopeful that despite these delays, this program will be completed reasonably soon.

Public Service Delivery

Providing hiking trails, primitive overnight camping facilities, and maps is usually considered to be in the province of federal and state government. And indeed, close cooperation with public agencies is a time-honored foundation in the A.T. project.

But the Appalachian Trail remains a largely private, volunteer effort. A National Park Service report (5/7/81) estimates that the value of volunteer labor expended in trail maintenance, reconstruction, and relocation is in excess of $1 million annually. The Park Service report goes on to say:

> This estimate does not include associated work in managing the Appalachian Trail, such as in sharing the construction and maintenance costs for 250 campsites and shelters, or for the publication, updating, and public distribution of a guidebook series and approximately 39 maps, or for the preparation...of 31 local management plans...Clearly these services, in total, provide a substantial contribution to the public that, by encouraging citizen involvement and individual altruism on a broad scale, demonstrates public policy values that, in some respects, are priceless.

Policy Recommendations

Specifically, the public policy that can best assist the Appalachian Trail is the completion of the Trail acquisition program. Having a stretch of Trail forced out of the woods onto a highway is a good way to dampen volunteer spirits and participation. Still worse, a disconnected series of 50 or 100 mile trail segments lacks the romantic appeal that helps serve as an incentive to get volunteers involved. An above all, a failure to complete the acquisition program would greatly compromise the quality of the Trail itself, and the American people would be the ultimate losers.

On a more general level, the Conference feels that it is in the public interest to encourage continued and expanded involvement of non-profit organizations in public recreation. Non-profit organizations can provide expertise, cost effectiveness, and a heartfelt sense of stewardship for lands involved in public recreation. Borrowing on the conclusions of a report done for HCRS in 1978 by the Appalachian Mountain Club, a member of ATC, we make the following recommendations:

- Establish, at a high federal level, a policy favoring the provision of recreational programs for the public by non-profit organizations;
- Collect and disseminate, both to public managers and the general public, information about the capabilities of non-profit organizations to provide recreational opportunities, and make available to non-profit organizations information on the opportunities for participation available to them;
- Assure that federal agency regulations and other procedures facilitate the use of non-profit, volunteer organizations;
- On a case by case basis, consider partial or full reimbursement for services rendered by non-profit organizations in providing recreational opportunities.

Senator Durenberger. Our next presentation will be by a panel of three.

Daniel Alesch, a former employee of the Rand Corp., has more than 20 years' experience in government and nonprofit organizations. He established Rand's site operations in Green Bay, Wis., for the housing assistance supply experiment in March 1973. He has been chairman of the board of trustees of the Housing Allowance Office since its inception. At the completion of the experimental period of the allowance program, Dr. Alesch chose to remain in Green Bay. He is currently in private business and serves also as adjunct associate professor of public administration at the University of Wisconsin in Green Bay. He continues as chairman of the board of trustees of the HAO, primarily in a volunteer capacity. I understand two members of his board are here. After you come forward, you may introduce them and have them stand.

The second panelist is Ken Orski, vice president of the German Marshall Fund of the United States. Prior to joining the fund in 1978, Mr. Orski served in the Ford and Carter administrations with the Urban Mass Transportation Administration. He was director of urban affairs at the Organization for Economic Cooperation and Development in Paris, and is a graduate of the Harvard Law School.

Our third panelist is Mitchell Sviridoff, president of the Local Initiative Support Corp. He founded LISC in 1980 following 13 years as the Ford Foundation's vice president for national affairs. In its short history LISC has succeeded in raising $25 million to aid community groups in obtaining corporate financial support and in developing profitmaking activities which would make them less dependent on the Federal Government and philanthropy.

I know, Mitch, that you have a plane to catch. I want to assure you that you may leave whenever you feel it is appropriate.

You all have been here this morning, so you know the ground rules under which we are operating—about 10 minutes each for your presentation and then some questions. I appreciate all of you being here.

Dr. Alesch, we will start with you.

TESTIMONY OF DANIEL J. ALESCH, CHAIRMAN OF THE BOARD, HOUSING ALLOWANCE OFFICE OF BROWN COUNTY, INC., GREEN BAY, WIS.; ACCOMPANIED BY JOHN ROSE, BANKER, GREEN BAY, WIS.; AND RICHARD GALLAGHER, PARTNER, LAW FIRM OF FOLEY & LARDNER; C. KENNETH ORSKI, VICE PRESIDENT, GERMAN MARSHALL FUND, WASHINGTON, D.C.; AND MITCHELL SVIRIDOFF, PRESIDENT, LOCAL INITIATIVE SUPPORT CORP., NEW YORK, N.Y.

Mr. Alesch. Thank you. I am honored to be here today, not just for myself, but on behalf of the Housing Allowance Office of Brown County and our counterpart organization in South Bend, Ind.

I would like very much to introduce two of my associates—Mr. John Rose, a distinguished member of the Green Bay community who has long been active in civic affairs. He is also a member of our board of trustees. I would like him to add just a couple of words on the cost at the end.

I would like to also introduce Mr. Richard Gallagher, who is a partner in the law firm of Foley & Lardner, our general counsel, and chairman of the Charitable Organizations Committee of the American Bar Association.

Senator **Durenberger.** If I let them come up, they will talk about the Packers being better than the Vikings. They may add something if it can be incorporated within your 10 minutes.

Mr. **Alesch.** Yes; that is fine.

I have to begin by saying a little about the Housing Allowance program, and what it is. In 1972, the Rand Corp. contracted with HUD to conduct an experiment to test an alternative form of housing assistance for lower income households. The basic feature of this program is to subsidize directly the consumers of housing, rather than to subsidize the suppliers of housing. There were two sites where we were to operate full-scale experimental programs—one being Green Bay in Brown County, Wis., and the other being South Bend in St. Joseph County, Ind.

We provided cash assistance directly to all eligible low-income homeowners or renters who chose to participate. Once eligibility was determined based on household size and income, these renters and homeowners could begin to receive payments to arrange to live in adequate housing. Basically, we gave them a hunting license to find standard housing. That hunting license could be exercised in one of three ways: They could have been already living in standard housing; they could fix up the housing in which they were living; or they could choose not to participate in the program.

Essentially, we made up the difference of a fourth of the household's income and what it ought to cost a prudent shopper to find adequate housing on the market.

What have we accomplished in doing this? Rand, of course, has done the experimental work. The nonprofit organizations in each of the sites—the 501(c)(3) Housing Allowance Offices chartered under the laws of each State—were the administrative arms of the experiment.

Since we began in 1974, we have enrolled 37,000 households in this program. We currently have 12,000 enrolled. One of the things we found in this experimental program is that, when given the chance, households have a rapid transition rate. They participate as long as they have to. We have also paid $55 million in benefits to these eligible households.

Administratively, we ended up with high marks in efficiency, effectiveness, and community satisfaction. I don't want to sound self-serving, but you do want to know what is happening out there. In terms of efficiency, Mr. Rose will mention some numbers on costs. I think, for my purposes, it is sufficient to say that our cost per unit of service has declined every year in current dollars since we began in 1974. If we account for inflation, the drop in cost has been even more rapid.

Staff size reached a high of 62 individuals at Green Bay in 1975. We now have a total staff of 40 persons and have just about doubled the workload. Our error rate is low. We have financial and program audits each year that show we have errors typically in the range of less than one-fourth of 1 percent, which we find very satisfying.

Rand, as part of its research, conducted independent surveys. It found that in the span of 5 years the levels of community satisfaction grew each year; however, there were some disappointments from time to time with certain features of the program.

If I could just read a little bit from a forthcoming report:

> The HAOs were efficient. In meeting their administrative goals, as the Housing Allowance Programs got underway, they either maintained high standards of performance or improved upon them as time went on. Their most important achievement was not getting the required work done, community relations or cutting administrative costs, but rather doing all of them at the same time.

In short, our experience was exceptionally positive. We had sizable problems in implementation and getting started but, generally, things went very well. We think there are two main reasons for this. One is that there was a great deal of careful planning, analysis and anticipation of problems done ahead of time by HUD, the Rand Corp. and our staff in Green Bay and South Bend.

Two, the program's design is conceptually simple. We do not try to overdo it for the clients. We don't handhold for them. What we do is say, "Look, if you can meet these program requirements, if you are income eligible, and if your household is this size, we will provide you with so much money a month if you can arrange to live in standard housing." Eighty percent who have been determined eligible have received payments. Only about 6 percent of those who were enrolled did not get payments and said they could have used some assistance, but when we offered the handholding, they didn't take it. That leaves 14 percent. These people made the rational tradeoff to not get any allowance rather than fixing the house.

What was going for us? Even though the program design was simple, we still could have had a disaster. However, we had the flexibility of a private corporation. We could reorganize, change and adjust as things went well or didn't go well.

There were also contractual arrangements with specified roles for the participants. We were also able to develop a well-defined means for monitoring the performance of the organization and for local government control. We developed a management information system and performance standards and specifications that allowed everyone to know how well we were doing, and what our cost structure was. They controlled us through the contract, the budget, and handbook policies, and the monthly open meetings.

We were also able to work out interfacing arrangements with programs that served similar clients. Mr. Gallagher informed me that it was easy to do once we involved the Secretary of HEW and the Governors of both States. We were able to find a means to extend indemnification to the board, officers, and staff. This was needed because the courts do not hold public officials personally liable for good-faith action, but we weren't at all convinced that policy extended to our board, officers, and staff. Finally, we were able to get good people, like Mr. Rose, on our board who cared about the agency, and watched us, and provided incentives for us to cut cost.

I have come to be a strong supporter of the use of nonprofits like this. We have discussed, for example, the extension of these methods into the area of determining eligibility for a large number of programs. We find many of our clients are the same clients of AFDC, SSI, or food stamp benefits. It seems silly to use large amounts of money to determine eligibility when you ask the same questions in four or five different programs.

Do I still have time to ask Mr. Rose to say a few words?

Senator **Durenberger**. Mr. Rose, do you want to just stand up where you are?

Mr. **Rose**. Yes; my name is John Rose. I am a banker in Green Bay and am, naturally, interested in cost.

In the Housing Allowance Office, administrative costs in 1976 dollars averaged $163 per recipient year. This was substantially below the $190 average that has been estimated for the section 8 existing housing program and substantially below the $295 average estimate in 1976 for welfare (AFDC) programs nationally.

In fact, if you delete the housing evaluation functions, which welfare agencies don't have, the allowance program administrative costs for income transfer functions alone averaged $108 per recipient year and that was lower than the administrative costs of welfare in all but 2 of the 50 States.

More impressive to us has been the fact that the HAO, even in its later years, has managed to continue to improve its administrative agency. Between its 3d and 5th year of operation, for example, the Brown County administration cost declined by about 20 percent. We think this was due to diligent management within the HAO, the use of modern business methods including computer based management information systems; and also, since the HAO was a nonprofit corporation, it had more flexibility to provide incentives for efficiencies than might be available in most local government agencies.

Mr. Alesch mentioned the valuation process through which we go. If this was not done, our average cost would have been $108 per recipient compared to the $190 average mentioned earlier.

Thank you.

Mr. **Alesch**. Thank you.

Senator **Durenberger**. Thank you very much.

Our next panelist is Mr. Ken Orski.

Mr. **Orski**. Thank you, Senator. It is a pleasure to be here today. I have a prepared statement which I offer for the record. I will summarize it and try to stay within the allotted time.

The German Marshall Fund is a private, Washington-based foundation dedicated to the strengthening of transatlantic cooperation on issues of common concern to industrialized countries. Among the issues currently under study is the subject of innovation in service delivery. The current issue of our magazine, "Transatlantic Perspectives," carries several articles devoted to this theme.

I am appearing before you, however, not in my capacity as an officer of the fund but on behalf of the Corporation for Urban Mobility, a new nonprofit venture in whose organization I have been intimately involved. This organization has been launched with the aim of promoting closer public-private cooperation in the provision of local transportation. The corporation, which is still in an early stage of development, will link the public and private sectors in a common effort to devise and implement innovative solutions to the crisis currently confronting America's mass transportation.

The idea behind Corporation for Urban Mobility is to demonstrate that the concept of public-private partnership is more than just a hollow phrase. We believe that private enterprise is ready to assume greater responsibilities for the delivery of public services and we intend to test this premise in the field of local transportation—a public sector which, we believe, can profit greatly from the management talents and entrepreneurial skills of private enterprise.

The corporation will pursue its mission through a set of three interrelated activities: First, it will design transportation service alternatives for private concerns which are not adequately served by existing transit, and for local communities whose transit systems are threatened with extinction because of budgetary cutbacks. Second, the corporation will champion innovative transportation service concepts and seek to reduce legal and regulatory barriers that stand in the way of their implementation at the Federal, State, and local levels. Finally, the corporation will seek an expanded role for the private sector and devise new strategies for public-private cooperation.

Let me begin by describing the circumstances that led to the decision to form the corporation. I will then cite some examples of the types of private sector responses that Urban Mobility means to encourage. I will conclude by assessing the likelihood of success of this still young organization, and mention some constraints that it must still overcome.

In my written statement I have given a number of examples of the deep trouble our mass transportation systems find themselves in today. Let me cite here a few of them.

In Boston, the MBTA faces a $170 million deficit and could go broke by fall. Indeed, Boston's transit system already had to shut down for a day last December when it ran out of money.

Chicago is *in extremis*. Despite the highest basic transit fare in the Nation, the regional transit system teeters on the verge of bankruptcy, and mass transit riders face sharp reductions in service.

In Birmingham, Ala., the transit system ran out of money and closed down for 3 months earlier this year to avoid incurring a $800,000 deficit.

Ridership is down throughout the country for the first time since 1975—even here in Washington, D.C., which has experienced a rather dramatic rise in ridership in the past. Fares are reaching all-time highs. The 50-cent fare, for all practical purposes, is a thing of the past. Fares are now reaching 75 cents and in some cases, as in Chicago, 90 cents.

I could go on, but I think this will give you a pretty accurate picture of the trouble transit is in. This is not the place to dwell on what caused these problems. Suffice it to say that it probably has little to do with the present administration's get-tough policy with regard to transit operating subsidies. The causes go back many years and have their roots in a combination of factors. These include escalating wage rates, low productivity, rapid expansion of service into surburban areas, and years of unrealistically low fares—fares which in the last 13 years rose only by 75 percent while operating expenses increased by 250 percent.

Compounding these problems has been the transits' failure to adapt to changing external circumstances. For the past 30 years we have been suburbanizing, but our transit systems have failed to follow through and provide the service that would efficiently serve the low density patterns of our suburbs. In sum, the transits are in trouble because they have failed to respond to the changing demands of the marketplace.

It follows, therefore, that their future viability hinges on what the Federal Government is going to do than on what happens at the local level. If public transportation is to regain some of its lost appeal and utility, and become once again economically viable, it must be restructured significantly, both in terms of the type of service it provides and in terms of who should provide it and who should pay for it.

Much of this restructuring and redefinition of public transportation is already happening, although only in isolated cases so far. On page 6 of my prepared statement I have given a number of examples. In New York, Massachusetts, and southern California private charter buses carry thousands of suburban commuters daily to downtown destinations. In many cities private taxicab companies provide shared-ride taxi services to the public under contract with local authorities. In a score of communities, employers help their employees to set up vanpools and carpools. In Senator Durenberger's native city of Minneapolis, General Mills and 3M provide very extensive vanpool services. Control Data provides private bus services.

Again in Minnesota, a recent law has authorized suburban communities to develop their own decentralized, community-based transit systems, using taxes that formerly were reserved for the metropolitan transit system. In San Francisco, a privately sponsored van shuttle links a large suburban medical center with a close-by BART station. Large developers in Dallas and southern California are subsidizing access services in their communities.

I could go on citing other examples. I can't cite any, Mayor Cisneros, in your city, but I am sure they exist.

There is an encouraging movement afoot to reform local transportation—to make it more flexible, more responsive to the multiple demands within a community, more accountable to local citizens and, of course, more efficient and cost effective. However, most communities do not possess the expertise to develop new alternatives or to devise strategies to involve the private sector in transportation service delivery.

This is where we see a role for the new Corporation for Urban Mobility. Its mission will be to help local officials think more creatively and build bridges to the private sector, as they proceed with restructuring their local transportation.

Let me conclude by saying a few words about the difficulties that still need to be overcome. I have already mentioned one—the lack of an adequate knowledge base and experience with innovative transportation options.

Second, there is likely to be suspicion and resistance on the part of many public transit officials, who may perceive the corporation's efforts as an attempt to skim the cream of the transportation market. I think this problem can be alleviated by concentrating attention on the suburban market, where there is little publicly provided transit, and on communities where service has been discontinued because of fiscal cutbacks and where alternative transportation services, therefore, do not pose a threat to established institutions. More importantly, however, we need to convince the transit community that alternative services do not constitute a threat but are, on the contrary, an important ally in a common effort to improve the productivity of public transportation. Alternative transportation services offer public transit authorities an out—an opportunity to withdraw from the task of providing costly, money-losing suburban services, and to concentrate on transit's traditional market, the central cities.

Looming in the background is the ultimate question: What are the chances of an organization like Urban Mobility becoming an effective change agent? How much difference can its activities make, and how successful can it be?

I think it is safe to say that any public service delivery system is probably too big and too powerful to be forced to change against its will. If change is to occur, there must be incentives for the system itself to want to change. Fortunately, such incentives are already at work.

For example, the present climate of budgetary austerity provides a powerful negative incentive for the local transportation systems to become leaner and more efficient. There are other incentives, which I have listed on page nine of my prepared statement. For example, rising land values encourage developers to tradeoff parking space for collective transportation; concern about the ability to attract the labor force, especially lower paid personnel, to suburban locations with high housing cost, motivates employers to provide company-sponsored transportation for their employees.

My time has run out, but let me just conclude with a 1-minute summary.

I think we stand on the brink of a major reorientation in the way we think about local transportation. Fiscal pressures confronting local governments, combined with sharply escalating operating costs and a climate of public disenchantment with transit's performance, are prompting local communities to reassess the effectiveness of their current transportation services and to search for more effective and economical alternatives. This search is leading them away from large monopolistic, centrally managed service delivery systems, and toward approaches characterized by decentralized operation, service diversity, competition, and a sense of shared public-private responsibility for service provision.

In sum, I believe we are witnessing nothing less than a fundamental rethinking of the basic premises of public transportation. While the final outcome of this process cannot yet be foreseen, there is sufficient evidence to suggest that it will lead to a major restructuring and redefinition of America's local transportation. The Corporation for Urban Mobility hopes to play a key role in helping to bring about this change.

Thank you.

Mr. GRAY [presiding]. Thank you, Mr. Orski.

Next is Mr. Sviridoff.

Mr. SVIRIDOFF. Thank you. I will not attempt to summarize my statement. You have it. It is six pages long. It is not hard to read. If you haven't read it, scan it.

I agree with most of what has already been said, but I would emphasize one point and emphasize it very sharply. Beware of overstatement, and beware of making an ideology out of a strategy. I believe there is a greater role for the private sector. I believe that nonprofit, voluntary organizations can be very effective—more effective—especially when they work in collaboration with the public sector in delivering services. However, they are not inherently good, they are not inherently virtuous. Many of them are incompetent. Many of them are evil. Many of them are corrupt. The Ku Klux Klan is a local initiative, a voluntary organization. It is not good, and I don't have to elaborate on that.

There is an opportunity to take advantage of some great resources in this country, resources that have been untapped or underutilized, which are represented by the voluntary, nonprofit sector. There is much more of that good resource around than I ever realized. I have spent 15 or 20 years in this business of working with private, voluntary, nonprofit organizations. As some of you may know, I have been a strong supporter of these organizations for many years. Mayor Cisneros will remember my role in San Antonio when he was associated, himself, with one of these efforts several years ago. The biggest surprise I have had in the last year is to discover that there is more of that talent around. More of the resources in existence are able to serve as alternative service deliverers, and do so at greater rates of productivity than I have ever dreamt possible.

If, in fact, some are good and some are bad, what it gets down to is the matter of selectivity. How do you select and whom do you select? Government has a major problem in making selections. Government is under enormous political pressures whenever it enacts a program to distribute its resources evenly and to respond politically. I am not critical of that. It can't avoid it; it is, after all, a political instrument.

When President Johnson made an effort to select 40 model cities, he was pressed into enacting a model city program for the entire Nation. Consequently, limited resources which might have proved effective in a limited number of carefully selected cities were spread thinly over the entire Nation. Thus, the program was a grave disappointment.

This points to the importance of strong, effective and collaborative intermediaries, which is precisely what LISC is. I will say three or four sentences about it and then proceed to questions.

LISC is a national, competent and, I believe, strong intermediary. It is a collaboration between private foundations and private for-profit corporations. It is only 1 year old. It started with $10 million. Its goal was to identify and select the 20 most promising development corporations across the country—what we called, at the outset, the second generation of community development corporations—and provide them with private resources in the way of loans—preferably loans—grants where necessary, and technical assistance to see if we couldn't strengthen their capacity to take on a program of scale. We had no intention of expanding this program beyond its original resources—its original resources being $10 million, $5 million of that from one foundation and $5 million from six private, for-profit corporations.

In 1 year the resources of LISC has grown to $25 million and may reach $30 million by the end of this fiscal year. This is not the result of a fund-raising effort. Corporations all over this country saw that there was, in existence, an intermediary between government and community development corporations at the local level which was able to make intelligent selections—indeed, create that universe—and assure some degree of success. Corporations found this very interesting and offered to raise more money in their own areas if that money was matched by LISC or by other resources which LISC might attract. That is now going on in 14 places—13 cities and 1 State. Amounts between $500,000 and $2 million are being raised. Most of that amount has already been raised. The number of 20 which we originally thought we would do in the first year has now grown to 60. By the end of this fiscal year it may well reach 100, which was our original 5-year goal.

This proves only one thing. That is, there is interest in the private sector if you can demonstrate to them that there is a way of investing in community development which is reasonably safe, has a reasonable chance for success, and will be competently managed. Just as government has a problem in making selections because it is under political pressures, private corporations cannot make these selections because that is not their business. They are not staffed to do it; they ought not be expected to be staffed to do it. They will respond, therefore—as they have responded in this case—to an intermediary organization that can carry out that function.

Senator **Durenberger** [presiding]. Thank you.

Dr. Gray, we will start with you.

Mr. **Gray**. I will address this primarily to Mr. Orski; however, I welcome responses from any of you.

In the face of some of the statistics that you have cited, including declining ridership in public transportation and higher charges, it would seem that people are resisting the higher charges by ceasing to ride. In that context, I am curious to know what is the incentive for the private sector to get involved in the first place? And, more generally, what would be the return to the private sector of entering into a public-private partnership?

Mr. **Orski**. I think, in many ways, the public sector would act in its own enlightened self-interest in supporting public transportation.

I mentioned the fact that many employers, especially in areas of high housing cost, have trouble attracting lower paid clerical employees. Employers in the Silicon Valley of the Bay area, for example, must look for clerical labor 20 to 30 miles out. In the absence of adequate public transportation, it is incumbent on them to find other means of providing access to their facilities. So, in some cases, employers will be forced to look for alternative service delivery mechanisms. This means primarily vanpools. But as I mentioned earlier, Control Data, ARCO and several other companies have gone into the bus business. The Reader's Digest Co. in Westchester County has been running a large private transportation system for its employees for many years.

Similarly, developers, especially developers of shopping centers, may eventually find it in their own enlightened self-interest to provide some form of collective transportation to facilitate access to their facilities. We saw this happen in California during the last oil embargo; several shopping centers set up spontaneous minitransit systems in order to retain customers.

Thus, there seems to be substantial incentives for the private sector to get into the business of supporting and, in some cases, operating transportation services.

Mr. **Gray**. Thank you.

Senator **Durenberger**. Ted?

Mr. **Kolderie**. One of the things we always worry about, in this whole field of alternatives, is how to get by without too much opposition from the traditional, dominant service system. In this case I guess that is pretty much a combination of the building industry, the remodeling industry and, perhaps to some extent, the public housing and redevelopment authority in the city. Based on your experience in Green Bay, would you look for not much of a problem, or a considerable problem in this housing voucher proposal? If it is a problem, how do you deal with it?

Mr. **Alesch**. I have to combine both Green Bay and South Bend because they are two different kinds of places. We purposefully chose two different kinds of places.

When we ran into resistance to the program, it seemed to be coming from traditional kinds of programs where this was viewed. Because the clients do most everything and because we were a private firm, one is tempted to believe there was some resentment around that this might eliminate some jobs and positions. There is, of course, no way to verify that. In terms of the housing rehab people, there was very little that seemed to be of conflict. This really turns out to be kind of a housing maintenance and development conservation program. Only about half of the units we encountered were substandard the first time we evaluated them. Half of these were fixed up within the first 12 months. So the upgrading has been rather substantial. What we find is a fairly sizable number of small entrepreneurs—one-man, two-man shops—engaged in the business of fixing up houses. It isn't that we have created an industry; we have helped one.

We did run into problems regarding the traditional HUD projects. The developers, who had done them, felt we might be competing for their clients. In some cases the clients benefited from the competition between the programs.

Senator **Durenberger**. Mayor?

Mr. **Cisneros**. I have a question, probably for Mr. Sviridoff and Mr. Alesch, or any one of the three.

As Mr. Kolderie has indicated, when we begin to talk about alternative programs, the interest groups that are automatically ready to fight are those who are providing those services through traditional government programs. That doesn't mean everyone; that means primarily those people who are serving as government bureaucrats at the local level. So, when you begin to talk about offering alternative programs, there is automatically some opposition. Most of the opposition comes about because folks are worried about any change. However, part of it comes about—and I think it is legitimate—because often when we talk about offering services in an alternative way, we are giving up an important goal in the process.

As many studies have shown, government programs tend to be the best employers of minorities and the best promoters of minority upward mobility, particularly in the central cities. As a result of that—as Senator Moynihan's book in the late sixties indicated—out of the participation requirements, the affirmative action goals, and the hiring and promotion practices of government programs, people were promoted and went on to other careers. They moved in a way they would not have in business or corporate life.

So, I wonder, when we talk about alternative services, whether we really are not giving up that result—that goal? If the intention is not to give it up, then how do we assure that those issues are addressed in what are otherwise privatized, efficiently organized, alternative services? How do we take care that that objective is addressed?

Senator **Durenberger.** Good point. Who wants to answer that?

Mr. **Sviridoff.** Again, I think this gets to the issue which I mentioned earlier—which is the issue of selectivity. You take care of that problem—to the extent one can take care of the problem at all—through a selection of organizations that will be as diligent as the public sector in the employment of minorities. If they are not, they should not be selected; they should not be favored; they should not be chosen; and they should not be reinforced.

Again that does require a selection process which could be voluntary if it works. If it doesn't work voluntarily, it will have to be regulated. If opponents of regulations want to avoid regulations, they will see to it that the voluntary process does work. It is, therefore, helpful to work through intermediary organizations, of which we are not the only one. Several others across the country that represent good examples of national intermediaries are able to make intelligent selection—the Urban Reinvestment Corporation and many others. If they fail, they invite the regulation which they deplore.

Senator **Durenberger.** The mayor is starting to scratch the surface of a deeper problem which we have addressed in this subcommittee in the past. That is—and you raised it when you talked about us with the politician's hat—in addition to the employment of minorities and equal employment opportunities, we here have mandated 59 other kinds of national rights, national goods. We have moved our money through categorical grant programs and so forth down to these delivery systems which employ people. So we can accomplish our environmental goals and our Davis-Bacon goals. We have all kinds of goods—59 of them at last count—that we accomplish.

When you put on the politician's hat and the responsible policymaker's hat, there will be a lot of concern about whether or not leaving delivery to this wide variety of alternatives will accomplish some of those goals.

Another part of the question is, Should we even be using this system to accomplish some of these goals? In the two responses you might take it even beyond the issue of minority employment.

Mr. **Alesch.** I would like to respond to that.

We used a contracting procedure. We are a little different from the other organizations in the sense that we actually contract with the municipal government, or the county government in this case, for delivery of the service. The county people, while people of good will and intelligence, had never before gone through this procedure. So, we spent a good deal of time helping them to manage us.

The process involved developing contracts that not only specified the quantity of what we were going to produce and the cost of production, but also specified the terms and some performance standards for that production. As a consequence of that contractual negotiation, we beat the city and county to the punch on an affirmative action program. We were the first organization in the county with an affirmative action program; and, I think, the only organization in the county to actually have met all its goals under the affirmative action program.

As Mr. Sviridoff said, some nonprofits are good and some are bad. I believe that that contracting procedure and the development of measures of service delivery quality are absolutely critical. Anybody can cut cost; but when you can cut cost and keep up the quality and performance, that is what counts. We are woefully behind in being able to measure what quality means in the delivery of a large number of various kinds of services.

Senator **Durenberger.** Ken?

Mr. **Orski.** Let me try to answer the question in the specific context of local transportation.

I do not see private delivery of services replacing public delivery. I see this being very much as a partnership in the true sense of the word, a cooperative task. In many ways the private delivery of transportation services will allow the public service providers to do a better job. It will free them from the onerous, very expensive task of providing marginal services—by this I mean services in the suburbs—and allow them to concentrate on the traditional market in the central cities where considerations of equity as well as economics argue that a public transit system remain in place. So, in many ways there is no conflict at all. On the contrary, there is a reinforcement by the private sector of the equity objectives of the public service delivery system.

Mr. **Sviridoff.** Could I say a brief word on that because you did go beyond employment? You implied that in your question, and I did not speak to it. It is a very sensitive and critical area. The answer to it has something to do with what Mr. Woodson said earlier this morning, the critical balance. It also has to do with tone and how you present your case.

One of the great errors of the war on poverty is it declared war against local governments. It declared a war it couldn't possibly win. Even if it could win it, it was the wrong way to start a program. This shouldn't be a matter of public sector against private sector. It should be a matter of collaboration. One of our six criteria in selecting a community development corporation—and this appears on page 5 of my submitted statement—is that it have effective relations with the local government. Unless it has effective relations and until it is balanced in its approach to these problems, it is not going to be an effective organization. It is too reliant on local organizations for much of its resources.

By the way, I have had something to do with La Playa in Puerto Rico and SAND in Hartford. Those organizations could not have built HUD housing without local government cooperation and public subsidy. That also needs to be emphasized.

So, it is a matter of tone, balance, judgment and sensitivity—political sensitivity on the part of advocates of this volunteer alternative as well as on the part of public representatives who believe in this collaborative effort.

Mr. **Cisneros.** I would like to address the question of the corporate and business role in this effort. Mr. Sviridoff, I think you are now in the business of trying to get corporations to pool resources so you can make decisions about the merit among the community development corporations, et cetera. In your observation, why do corporations want to help in this effort?

Senator **Durenberger.** What Ted proposed on the floor last week is that we increase the cap from 5 percent to 10 percent. I suppose that was for those up at the top.

Mr. **Sviridoff.** Why do those that give give? I think there is a variety of reasons. I think we have to start by recognizing that those that give believe it is in their own self-interest—and I like to use the term enlightened self-interest—to be socially responsible and to try to deal in collaboration with others with the social problems in their immediate environment. Some of them also give because they are under a great pressure to give. They are under governmental pressure. The Communities Reinvestment Act has had a very marked effect on the giving policies of loaning institutions. Some of them give out of a long tradition of giving within their own organization.

I think, though, that is primarily the first factor. It is a sense that if free enterprise is going to survive in America, if companies are to prosper in their own immediate environment, they must recognize that they have some responsibility—not a total responsibility but some responsibility—to try to alleviate, if not solve, the pressure of the most serious social problems.

Mr. **Cisneros.** In your opening remarks you referred to this discussion as a discussion of strategy. Do you envision that corporate giving is an essential part of this strategy? If so, then how do we get beyond 1 percent? How do we get beyond only 50 percent participating at all, and how important is that?

Mr. **Sviridoff.** I think it is an absolutely essential element of strategy. The organizations that we are talking about cannot function effectively without private sector support. They also can't function, I would emphasize, only with private sector support.

Again, this is not a question of alternatives between the private sector and the public sector, but the degree to which they can become independent has to do with the level of private sector support. How does one stimulate that? How does one strengthen incentives, make it more attractive for them to give?

I am not personally acquainted with the various issues in the tax bill which would strengthen those incentives, so I will not comment on that aspect of it. However, on the private side, the way to get more corporate involvement is for the private voluntary sector to be more creative and to be more effective. Just as it criticized the public sector for a lack of creativity and effectiveness, it must look within its own house.

Therefore, I think that the national intermediaries, which have been emerging—of which we are only one model; there are several models just as competent, just as effective—more of these are needed. I see a desperate need, for example, for a national intermediary in the arts which would relate the giving to the arts to the improving of the management of art institutions—that would tie private giving to improved management capacity. I see a desperate need for a national intermediary in the field of public education to which private sector organizations can and want to contribute. What the Allegheny Conference has done in the Pittsburgh area in the way of mini grants to the public schools is an obvious national model.

I think we ought to encourage—and foundations and corporations ought to take a lead in this—the creation of national intermediary institutions which are competent, strong, and can produce. It is the production to which corporations will respond. That is why, I believe, they are responding to the work of our organization.

Mr. ORSKI. From our own experience, we find that the most effective way to appeal to the corporate conscience is through the argument of the enlightened self-interest. This doesn't mean you have to prove dollars and cents, because private companies realize very well that they are reaping tremendous hidden benefits from public service delivery systems, such as transportation, and that without such systems they are ultimately going to suffer. But you have to show them some cause and effect, however indirect it may be.

Senator DURENBERGER. Ted, do you have a follow-up question?

Mr. KOLDERIE. Yes, I do.

Mr. Sviridoff, you want to help support and develop the capacity of some of these organizations you have described. Is the strategy for this simply to give them money, with which they would then buy management, accounting, legal help, investment advice, et cetera? Or, is the concept for the companies—particularly as the local companies join in the program the way you have described—actually to be involved with their people? Are they limited to being involved just with their dollars?

Mr. SVIRIDOFF. It is the former. It is the dollars and their people. In each of the areas we are working, in the 14 areas of concentration, the donors constitute a local advisory committee. No action is taken in that local community—that is, no LISC dollar is spent—without approval by the local advisory committee which is made up of donors only. That donor involvement—in passing on loans, grants and technical assistance—inevitably brings them into a role of technical support in the assignment of their own staff. Many of the areas in which we are working have two boards, a local advisory board of donors and a technical assistance board of donors. So it is that kind of participation.

Let me give you a quick example in the South Bronx where we now have a pool of $2 million directed at strengthening about 12 community development corporations—a complement to the city's and the Federal Government's program. The following organizations meet regularly at least once every 2 months: The Chemical Bank, the Chase Bank, the Morgan Guaranty Bank, CBS, Time-Life, R. H. Macy, New York Life, Metropolitan Life, and others. They are not only giving money to the South Bronx, they are directly involved in the program process and in technical assistance. That is just as important as the dollars.

Mr. KOLDERIE. I have a quick question for Ken. One of the purposes of alternatives, as the mayor commented earlier this morning, is not to replace the primary delivery system but to stimulate it. The secondary system is going to continue to be smaller; thus these alternate transportation systems will be small. I can understand how the kind of work you are talking about would encourage the development of additional private, nonprofit, commercial, and other alternatives in transportation. Could you follow through a little further for me? I would like to see how we can begin to get a change in the typical urban transit system, other than simply withdrawing from the suburban, nonprofitable routes. How do you begin to make major system changes?

Mr. ORSKI. As these innovative systems are introduced, many of them by the private sector, public transit authorities are going to sit up and take notice of the economics of these more flexible transportation systems. The best opportunity for public transit authorities to cut costs will be by purchasing the service from various private operators. This is done very infrequently today; however, there are signs—still in isolated cases admittedly—of public transit authorities beginning to do so. So, as in many other cases of innovations, there is no substitute for a successful example, and the private example can show some very effective and cost efficient ways of delivering transit services which the public authorities have not thought of themselves.

Mr. KOLDERIE. I can think of one thing that occurred in our area the year before last. An arbitrator forced on the transit commission something it had not asked for, which is the right to hire up to 10 percent part-time drivers. That apparently got the transit commission thinking. This past year, when they went into negotiation, they put some things on the table. They asked for and won the right to hire bus mechanics who had not been bus washers for 3 years. I know there is a tendency to blame the unions all the time for the problems of some of these service systems, when instead we should blame it on the fact that management doesn't do its job.

Mr. ORSKI. Letting local communities have the opportunity to formulate, develop their own community-based, decentralized system, as has been done in your State of Minnesota, is also going to help to introduce innovation into public transportation.

Mr. KOLDERIE. That would be a purchase of service programs only. They would not be allowed to hire drivers or to buy vehicles.

Mr. ORSKI. I see.

Mr. KOLDERIE. The legislation pushes toward the use of the private sector.

Mr. ALESCH. I would like to add a word here. One of the things that has concerned me, as we get more monolithic in the delivery of particular services, is that we finance categories from the Federal, through the States and down to municipalities. There is not much room for local delivery. What we have done, in essence, is raise the cost of experimentation and innovation where nobody can afford to do it; because, in order to innovate the experiment with anything significant, you have to forego the benefits of categorical grants.

In the use of private—not in our case because we contract specifically to do things; private in the sense discussed previously—you create that delivery and decentralization, and opportunities for incredible amounts of innovation. A lot of it is not going to work. However, as Mr. Woodson said this morning, there is also the chance for the IBM. Even in our direct contract services, we aren't bound by the giantness of the city to keep us from making changes. If we want to modify our system, we have our own computers and we change it. If we want to change our compensation and provide incentives for people to do things, we change our incentives plan without having to go through a rather extensive bureaucratic and political process. There is a chance for innovation. I think this is absolutely critical when you are faced with a lot of stress and big problems.

Senator **Durenberger**. Any other questions or comments?

[No response.]

If not, I want to express my appreciation to the witnesses for the time and effort that went into your presentations and ask you to stay in touch. This is not the last of our efforts in this area.

[The prepared statements of Messrs. Alesch, Orski, and Sviridoff follow:]

THE USE OF PRIVATE ORGANIZATIONS TO ADMINISTER A HOUSING ASSISTANCE PROGRAM: THE CASE OF THE HOUSING ASSISTANCE SUPPLY EXPERIMENT

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In 1972, The Rand Corporation, a nonprofit, California-based research organization, began the Housing Assistance Supply Experiment under the sponsorship of the U.S. Department of Housing and Urban Development. The principal purpose of the experiment has been to test an alternative form of housing assistance for lower income households.

Under the terms of the experimental program, monthly cash payments were offered to all low income renter and homeowner households who chose to participate to help them with their housing expenses. Once households were determined eligible based on household size and income, they could receive payments if they could arrange to live in housing that met program standards and if they could maintain the housing to those standards.

The administering organizations were charged with determining household eligibility and with evaluating dwellings to determine whether they met program standards. All negotiations, repairs, and rental agreements were conducted by program participants without assistance from the organization. The organization neither leased nor built housing, nor was any property removed from local tax rolls.

The administering organizations in the two experimental sites enrolled more than 37,000 households since their inception in 1974. During that same period, approximately $55 million were disbursed to qualified households.

The experiment was designed to answer specific questions concerning the feasibility and desirability of a program in which housing assistance is paid directly to participating households who deal directly in the private market without agency involvement. Rand's final report on the experiment is being prepared now. It will include an analysis of program administration. Because of the current interest in both privatization and housing vouchers, the report is certain to evoke considerable interest.

Despite the considerable importance and relevance of the experiment, this paper does not focus on it or on its findings. Instead, the focus is on the lessons learned from the use of private organizations established to administer the housing allowance program in the experimental sites.

THE ADMINISTRATIVE ORGANIZATIONS: HOUSING ALLOWANCE OFFICES

Rand's experimental design called for mounting full scale housing assistance programs in two middle-size metropolitan areas. After considerable study, Brown County, Wisconsin (Green Bay) and St. Joseph County, Indiana (South Bend) were selected.

A ten-year program was to be conducted in each of the two sites. The first five years, already concluded, were designated as the experimental period. The ten-year program duration was selected so that private investors who might have wished to upgrade substandard housing for participants would have sufficient incentive and amortization periods to do so.

Rand elected to create a private, nonprofit administrative corporation in each site to administer the experimental program. By controlling membership on the two boards of directors for the first five years, Rand could thus ensure comparability of program administration between the sites for experimental purposes. It could not have done so if the program had been administered by local government in each site. Since Rand's contract extended only through the experimental period (program funds and research funds come through different channels), the private organizations were available to continue to administer the program through the final five years.

Rand chose the nonprofit form for the two agencies primarily for purposes of consistency with its own nonprofit status. Had the organizations been profit seeking, the lessons learned would have been equally appropriate.

In South Bend and in Green Bay, private, nonstock, nonprofit 501(c)(3) corporations were chartered under the laws of their respective states. A Rand staff member was sent to each site as Chairman of the Board of Trustees and as Site Manager to establish an organization, staff it, obtain appropriate office space, bring the organization to operational readiness, and to implement and run the program as designed and as efficiently as possible.

The objectives of these nonprofit administrative organizations have been significantly different, yet wholly consistent with, the objectives of the *experiment. The experimental objectives have been to learn the effects of the program. The administrative objectives on-site were to run an efficient and effective program.*

Administratively, the Housing Allowance Offices (HAOs) are governed by a volunteer Board of Trustees. During the experimental period, Rand staff constituted a majority of Board members.

During both the experimental and the post-experimental periods, program funds flowed from HUD to the local housing authority in each community. The standard Annual Contributions Control is employed to effect this fiscal flow. The HAO in each site contracted with its local housing authority to administer the programs. Program funds flowed from HUD through the local housing authorities to the HAOs in accord with those contractual arrangements.

PRINCIPAL PROBLEMS ENCOUNTERED

All of the normal problems associated with implementing a conceptually new program with a newly formed organization were encountered. In addition, there were administrative difficulties generated by experimental considerations. Some of the problems encountered seem to be generic to new organizations. Others seem generic to situations in which there are both experimental and administrative objectives to be resolved within relatively tight policy space. Some of the problems that were encountered are generally relevant to the concept of privatization; others are not. This paper focuses on those clusters of problems that appear to be generally applicable to privatization.

Interfacing With Existing Programs

One problem that emerged during program design was the need to work out arrangements with existing assistance programs administered or funded by federal agencies. These arrangements were necessary to ensure mutually appropriate rules for income eligibility determination and establishment of benefit levels.

Although complex, these negotiations proceeded relatively smoothly. Arrangements were made with the U.S. Department of Health, Education and Welfare, and its state and local counterparts, to preclude never-ending rounds of having benefits to recipients scaled up and down by each agency at each recertification.

Arrangements were also made with other HUD programs to ensure that clients eligible for several programs, but able to benefit from only one at a time, would be provided full information about their options. No agreement could be reached with the U.S. Department of Agriculture concerning its Food Stamp and housing programs. It was necessary, therefore, for the HAO to design means for accommodating to that situation. Arrangements at the state and local level, including waivers when required, were negotiated with minimal difficulty.

Issues of Corporate and Personal Indemnification

One of the most time-consuming and complex problems encountered centered on issues of organizational protection. We were concerned with obtaining adequate indemnification of community volunteers who serve on the HAO boards and for officers and staff. Such indemnification flows as a matter of law to public employees for actions done in good faith. It was not clear, however, that such protection would flow to the private administrative organizations. Therefore, extensive analysis, negotiation, and invention were necessary to arrange for such protection. The matter was made more difficult because of the newness of both the program (no parallels could be drawn with private sector activities) and the administering organization. Officers and directors insurance simply could not be obtained for the first several years and only at relatively high premiums thereafter.

This issue is a matter of considerable importance if privatization is to be expanded. Both profit seeking and nonprofit organizations need to have sufficient protection through some form of indemnification before prudent corporations will contract to administer public programs on a large scale or in situations for which there is little precedent or comparable private experience.

Governmental Control Mechanisms

Increased privatization means that government will have to move more and more away from its traditional employer-employee role and perceptions. It will move increasingly into a position where it will need to develop more effective tools and procedures for policy and fiscal control and for contract monitoring. Relationships will be contractual rather than employer-employee in nature.

The challenge will be to develop contract mechanisms that build in sufficient control mechanisms to ensure the quantity and quality of services delivered, adherence to policy by the contractor, and prudent financial practices.

In the case of the allowance program, local governments have ample control mechanisms. As a result of cooperative efforts between the Local Housing Authorities (LHAs) and the HAOs, local governments in both sites have control mechanisms with the requisite depth and breadth. These mechanisms included sophisticated management information systems, complete with sets of performance indicators. Control monitors have been assigned by the local jurisdictions. Regularly scheduled formal meetings are held between the LHAs and the top management of the HAOs. These are subject to "sunshine" open meeting laws. The LHA must also approve annual operating budgets that incorporate line item and performance formats, productivity factors, workload estimates, and unit costs. Independent, annual financial and program audits are required of the HAOs by local government by contract. Program administration is governed by formally adopted policies and procedures handbooks which may be changed only with the approval of the local housing authorities.

All of the control mechanisms described above are incorporated, at least by reference, in the contract negotiated between the nonprofit organization and the local government.

Whether administrative organizations are selected by sole source or through competitive bidding, there is a critical need to develop adequate means for specifying and measuring the level of service to be provided, the quality of service provided, and perhaps even management style and treatment of clientele groups. Unless such performance requirements are specified adequately, bids will not be comparable.

Provisions concerning confidentiality of client information are also included in the contracts governing program administration. This matter should be specified contractually because of the sometimes frequent requests for information about whether someone is participating and, if so, about certain of the data provided by the client. The contract, in this specific case, provides that no information will be provided anyone about so much as whether a person is participating, except as required by law. This provision has been an issue only once, that being the occasion of a regular review of the entire experiment by the General Accounting Office. Arrangements were negotiated to meet both contractual obligations and GAO needs.

To Whom Do We Report?

Because of the experimental nature of the program, it has been necessary for the two HAOs to report, in essence, to both the federal government and to the local housing agency. This has worked because of the good will and cooperation that have enveloped the experiment; almost everyone was willing to make adjustments from the normal routine to accommodate experimental requirements.

As privatization continues, however, important policy determinations must be made concerning designation of the government or set of governments to which the contractor is to relate. If block grants prevail, then the decision will be made, presumably, within the states and municipalities. If monies flow directly from federal agencies, then sizable problems should be anticipated as contractors seek to be responsive to both the central agency and to local pressures affecting program implementation that stem from variations in local circumstance.

Differentiating Policy Control from Administrative Control

The need to differentiate between policy and administrative control could have been a major problem in the administration of the allowance program. It was not, but only because extensive efforts were made on a continuing basis.

Privatization requires that a line be drawn between policy formulation and control and the administration of that policy. The agency must be careful to draw the line so that it does not delegate its policy functions and so that it does not give up its discretionary space to the contractor. The contractor, however, must have administrative latitude if it is to be held responsible for costs and related matters. It will be difficult to draw the necessary lines because administrative practices can, in fact, affect policy, just as policy decisions affect administration.

One advantage of privatization that has emerged in the experimental housing program is that policy and administration were differentiated sufficiently to permit one to be responsible for policy or for administration, but not to have to be either defensive about or responsible for the other. More generally, one could, for example, be very positive about a particular policy or program without necessarily being positive about how it is being administered. There are, of course, important practical benefits to be gained by being able to separate policy from administration when programs run into difficulty.

The Need for Rapid and Flexible Decisionmaking

Because the experimental program involved only two sites, and because our principal federal contacts were with higher levels in the government, problems in program design or regulations could be dealt with quickly and effectively before they became major events. Moreover, local institutional differences could be accounted for by relatively simple negotiations among the administering organizations, the local governments, HUD, and Rand. *This is an important point because it was not a problem in the experimental housing program; the need for rapid, flexible decisionmaking may be a source of difficulty in privatizing large scale programs if they require uniformity across the nation.* It is one thing to adjust rules that affect several thousand households. It is quite another to change rules when they affect hundreds of thousands of households in states as diverse, for example, as Maryland and Idaho. Considerable centralization of decisionmaking about a full range of policies may not be particularly consistent with attempts at large scale privatization of programs involving many contractors across the nation.

THE RESOLUTION OF MAJOR PROBLEMS

The major problems that were encountered in administration of the experimental housing program in the two sites were basically all settled through standard contract negotiating procedures. Contractual relationships established the relationships among the parties involved: from HUD to the local housing authority, from the local housing authority to the Housing Allowance Offices, and from the Housing Allowance Offices to the program participants.

The contracting process, with its norms concerning negotiation, specification, and amendment, provided both a procedural framework and a familiar basis by which the numerous parties involved were able to stipulate rights and responsibilities. Without this process and the resulting controlling documents, the process would have been much more complex and may not have been possible to effect.

WHAT HAS BEEN ACCOMPLISHED?

The Rand Corporation is currently preparing an extensive analysis of the administration of the Housing Allowance Offices in both Brown and St. Joseph

County. That report will go into far greater detail than is possible in this brief paper.

Since the two Housing Allowance Offices began operations in 1974, they have enrolled more than 37,000 households. Current enrollment in the two programs is about 12,000 households. They have paid more than $55 million in benefits to eligible clients. In Brown County, the smaller of the two programs, the HAO has conducted more than 42,000 redeterminations of eligibility, including 42,000 separate housing evaluations. In approximately 6000 instances, housing units that failed initial evaluation have been upgraded to meet program standards.

Administrative Efficiency

The programs in both sites have grown considerably through the past seven years, but the HAOs have effected major efficiencies. The Brown County staff reached its largest size, 65 persons, in 1975. Since then, with almost twice as many participating households, the staff has been decreased to 41. When one divides total administrative expense by total participating households, the monthly administrative cost per household, in current dollars, has dropped from $26.25 in 1977, to $24.52 in 1978, to $20.52 in 1979, to $20.40 in 1980, to $19.66 so far in 1981, including all front end enrollment costs. When one amortizes front end enrollment costs over the expected duration of a household's participation, the approximate annual administrative cost for the program in both sites is $165. These figures compare favorably with any similar program.

Administrative Effectiveness

Efficiency without effectiveness means little. The two HAOs have an enviable record of accuracy in determining eligibility and payments. Based on extensive independent annual program and financial audits, the Brown County HAO has uncorrected errors in approximately one percent of its new enrollments and in under three percent of its annual recertifications. The net uncorrected error in payments for the Brown County HAO is approximately $.05 per client year for new enrollments and $1.01 per recipient year in annual recertifications (where payments are changed only if they amount to more than $10 per month).

Even with its substantial staff reduction, applicants to the Brown County program have not found it necessary to form long queues to be enrolled. To the contrary, waiting lists have been kept short. By employing limited telephonic prescreening methods and scheduled appointments for interviews, the Brown County HAO has been able to reduce the number of interviews in which applicants were found ineligible and has been able to eliminate peaks and valleys in applicant arrivals for interviews.

Client and Community Satisfaction

Throughout the experimental period, Rand conducted annual surveys of a large sample of Brown County households. From these surveys, it was learned that both clients and nonclients of the HAOs, in both sites, gave high ratings to the HAO administration. Over the duration of the surveys, the level of satisfaction of both groups grew.

GENERALIZABLE FINDINGS

As was stated early in this paper, it is important to distinguish the findings of the experiment from what was learned about program administration by private organizations. Rand has already reported many of its findings about the program and will soon complete its final report. Rand has reported that a housing assistance program that provides funds directly to low income households, renters and owners, who seek adequate housing in the open market and negotiate rents and conditions themselves, does work. Moreover, as Rand has reported, the experimental program induced only a 1.2 percent increase in the price participants pay for housing in contrast with a 26 percent increase in rents brought about by Section 8 assistance, which uses regulations to control price increases. In the experimental program, most benefits go to participants.

Generalizable lessons have been learned from the use of private organizations to administer the program in each of the two sites. Most importantly, we have learned that it is not only feasible to utilize such organizations for administration, but that it has worked extremely well. The organizations have demonstrated continuing increases in productivity and reductions in unit costs, have operated at exceptionally low error rates in determining eligibility and payment levels, and have produced high ratings of satisfaction from clients and the communities in terms of perceived administrative efficiency.

We have learned, too, that several topics are of considerable importance in the matter of privatization. First, the indemnification that typically flows to governmental employees acting in good faith is not typically extended to directors, officers and staff of private, contracting organizations. In order for privatization to expand, it will be necessary to devise mechanisms to more easily ensure corporate and personal indemnification.

Second, there is need for considerable development of contract control and management mechanisms if private firms are to be employed increasingly in the delivery of services. We are much better equipped to determine the quality and quantity of equipment or materials procured from private firms than we are to specify quantity and quality of services delivered. To move from an employer-employee relationship to a contractual relationship, more sophisticated methods must be devised. There is also a need to distinguish as clearly as possible between policy formulation and control and administration of programs if privatization is to be extended. Management analysts advise us that this is often difficult to do.

Third, we have learned that the contractual process has served admirably as a means for both identifying and resolving potential and actual problems and conflicts associated with service delivery through private organizations. Contract negotiation has provided an understood and accepted means for specifying the rights, obligations, and responsibilities of all participants in the experimental housing program, including the federal government, the local governments, The Rand Corporation, the Housing Allowance Offices, and the actual recipients of program benefits.

Fourth, in the case of the experimental housing program, use of a private organization appears to have worked because the program design did not demand that the staff do things it simply was not capable of doing. Nor did the design require activities that could not be managed. The program is simple and the policies and procedures are well specified. Most of the burden fell on participants who were, for the most part, able to respond very effectively. Over 80 percent of those determined eligible received payments. Of those who didn't, many decided the benefits were not worth the costs of repair or moving. Only about 6 percent might have used additional services, but only half of those indicated they might want them if they were available. It may be the case that we are, in many instances, offering services that are neither desired nor entirely manageable. It is clear, however, that a major factor in the successful use of private organizations in the experimental housing program was that the functions were clear, specified, relatively simple to perform, and relatively simple to manage.

Fifth, we have learned that there are significant advantages to the flexibility of the private organization that have benefited both the organization and local government. The Brown County HAO has had the opportunity to experiment with organizational form, compensation plans, job restructuring, and other mechanisms to increase efficiency without it being necessary to make those changes through the whole of county government. Because the organization performs a single function and because of its relatively small size, it had this flexibility.

The contract under which the program operates is scheduled to terminate in 1984. At that time, if a replacement program does not develop, the County will not be faced with the prospect of terminating or relocating program staff. That is the responsibility of the private contractor. The private contractor also deals with issues of compensation and employee benefits as well as with personnel problems. The County does not have to concern itself with these matters. It simply negotiates an annual budget or price with the contractor. The full cost of program administration is known and is known at the beginning of the fiscal year.

Finally, we have come to believe that there is an extensive opportunity for increased privatization of the administration of public programs. Illustratively, we have been particularly conscious of costs and have generalized from our experience to other programs. We know that it costs us approximately $165 to determine eligibility for a single household. We believe that our operation is efficient. Other programs, such as Food Stamps, AFDC, SSI, and other housing programs require determinations of eligibility that require information remarkably similar to that required by the experimental housing program. From our records, it is clear that many households participate in one or more of these programs at the same time. Even if the cost of determining eligibility in other programs is the same as ours, it is conceivable that major savings could be effected simply by utilizing a single organization to determine eligibility for various programs. The resulting savings could then be used to serve additional households or to reduce total program costs. Moreover, based on our experience with a single program in two middle size metropolitan areas, it is not inconceivable that this function could be administered by a private organization.

Although such a program is speculative, it represents our belief, based on our experience, that there can be significant benefits from increased use of private organizations to administer public programs.

PREPARED STATEMENT OF C. KENNETH ORSKI BEFORE A HEARING OF THE SENATE INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE ON ALTERNATIVES TO PUBLIC SERVICE DELIVERY, JULY 28-30, 1981.

Mr. Chairman, Members of the Panel. Thank you for inviting me to participate in these hearings and to testify before your panel.

My name is C. Kenneth Orski. I am Vice President of the German Marshall Fund, a private, Washington-based foundation dedicated to strengthening transatlantic cooperation on issues of common concern to industrialized nations. I might mention that among the issues currently under study at the Fund is the subject of innovation in public service delivery. Europe seems to share our interest in expanding the role of the private sector in the provision of public services, and we hope that we can mutually profit from studying each other's experience. Indeed, the current issue of the Fund's journal, Transatlantic Perspectives, carries several articles devoted to this theme.

I am appearing before you, however, not in my capacity as an officer of the Fund but on behalf of the CORPORATION FOR URBAN MOBILITY, a new nonprofit venture in whose organization I have been intimately involved, and which has been launched with the aim of promoting closer public/private cooperation in the provision of local transportation. The Corporation, which is still in an early stage of organization, will link the public and private sectors in a common effort to devise and implement innovative solutions to the crisis currently confronting America's mass transportation.

The idea behind CORPORATION FOR URBAN MOBILITY is to demonstrate that the concept of "public/private partnership" is more than just a hollow phrase. We believe that private enterprise is ready to assume greater responsibilities for the delivery of public services and we intend to test this premise in the field of local transportation -- a public sector which, we believe, can profit greatly from the management talents and entrepreneurial skills of private enterprise.

CORPORATION FOR URBAN MOBILITY will pursue its mission through a set of three interrelated activities:

- It will assist in the design of transportation service alternatives for private concerns which are not adequately served by existing transit, and for local communities whose transit systems are threatened with extinction because of budgetary cutbacks;
- It will champion innovative transportation service concepts and seek to reduce legal and regulatory barriers that stand in the way of their implementation at federal, state and local level;
- It will seek an expanded role for the private sector and devise new strategies for public/private cooperation in the provision and operation of local transportation services.

Let me begin by describing the circumstances that led to the decision to form CORPORATION FOR URBAN MOBILITY. I will then cite some examples of the type of private sector responses that URBAN MOBILITY means to encourage. And I will conclude by assessing the likelihood of success of this still young organization, and mention some constraints that it must still overcome.

The Current Context of Public Transportation

All of us are aware that mass transportation is currently facing very grave difficulties — difficulties which have pushed some systems to the brink of financial collapse. Items:

* In Boston, the Massachusetts Bay Transportation Authority

faces a $170 million deficit and could go broke by fall. Boston's transit system already had to shut down for a day last December when it ran out of money.

* In Philadelphia, Conrail officials notified the transit authority that commuter trains will be halted later this summer if an additional infusion of $100 million is not obtained.

* Chicago is in extremis: despite the highest basic transit fare in the nation, the regional transit system teeters on the verge of bankruptcy, and mass transit riders face sharp reductions in service.

* Birmingham, Alabama's largest city, ran out of money and closed its transit system for three months earlier this year to avoid incurring a $800,000 deficit, despite a 25% Federal operating contribution and 80-cent bus fares. The price of its re-opening has been a 35% reduction in daily service.

* In New Jersey, the Transit Corporation called for a 50% increase in fares and reductions in bus and rail service, warning that further increases in fares of 30-40% would be needed early next year in order to cover an expected operating deficit of $80 million.

* Ridership is down throughout the country, for the first time since 1975. In the first four months of this year the number of riders in Chicago has declined by 5%, and in St. Louis by 17%. Even in Washington D.C., which has experienced impresssive gains in riders for the past several years, ridership has declined by 5.5%.

* Fares are reaching all-time highs. Last year the average basic fare rose 19 percent — an increase that equalled the increases of the six previous years combined. The 50- cent fare is rapidly becoming a thing of the past. New York, Pittsburgh and Miami all have 75-cent fares, and Chicago has just raised its fare to 90 cents. More fare hikes are expected.

While mass transit problems of New York, Chicago, Philadelphia and Boston dominate the front pages, other cities are wrestling with similar problems. Dallas, Atlanta, Miami, Pittsburgh and Los

Angeles all raised fares this year in return for steadily deteriorating service. Nor are the problems confined to central cities. Indeed, suburban areas will be the first to feel the impact of higher fares and service cutbacks.

How did U.S. transit find itself in this predicament? This is not the place to dwell extensively on the causes of the present crisis. Suffice it to say that it has little to do with the present Administration's get-tough transit policy. The causes of transit's financial troubles go back many years and have their roots in a combination of factors. These include escalating wage rates due to generous wage settlements; declining productivity due, in part, to labor opposition to part-time drivers and split shifts; rapid service expansion into outlying, low-density suburbs where fares recover only a fraction of the cost of providing service; deferred maintenance of equipment and facilities; and years of unrealistically low fares - fares which in the last 13 years rose only by 75% while operating expenses increased by 250%.

Compounding these problems has been transit's failure to adapt to changing external circumstances. For the past 30 years America's urban geography has been undergoing drastic changes, with massive population shifts from central cities into the suburbs that have radically modified the patterns of metropolitan travel. However, local transit systems generally failed to adapt their services to meet the new conditions. They continued to operate traditional-type services — large buses running on fixed routes and fixed schedules — in lower density suburban areas, seemingly oblivious to the devastating effect these actions were having on the transit systems' financial posture.

While outlying residential suburbs were being provided express commuter bus service to the downtown, vast new concentrations of suburban employment - industrial parks, office campuses, shopping malls, medical centers and corporate headquarters - were largely being ignored. Having pushed service far out into low-density suburbs, transit authorities failed to follow through and exploit the burgeoning travel demand to suburban employment centers as a new source of operating revenue.

In sum, transit is in trouble because it has failed to respond to the changing demands of the marketplace. It follows, that its future viability hinges less on what the Federal government is going to do than on what happens at the local level. For if public transportation is to regain some of its lost appeal and utility, and become once again economically viable, it must be significantly restructured, both in terms of the type of service it should provide and in terms of who should provide it and who should pay for it.

Adapting the System to Changing Demands

Services will have to become more flexible and more closely tailored to the needs of different travelling publics. Transit organization will have to become more decentralized and involve multiple sponsors and operators - some public, some private. The metropolitan transportation system of tomorrow will typically involve fewer traditional bus lines (which will be largely confined to central cities and high density corridors where routes are heavily travelled and fares can recover most of the cost of operation), and a greater variety of custom-tailored services: express buses offered by subscription to suburban commuters by private charter bus operators; employer-organized vanpools, carpools and company-operated buses for employees; community-sponsored shared-taxi services purchased from local taxicab companies; privately-supported shuttles linking suburban centers with regional malls and office parks; and a host of other specialized transportation services designed to fit closely the needs of different markets.

Much of this is already happening, although so far only in isolated cases.

* In New York, Massachusetts and Southern California private buses carry thousands of suburban commuters daily to downtown destinations.

* In Norfolk VA, Phoenix AZ, Columbus OH, Birmingham AL, San Diego CA, Memphis TN, and Charlotte NC, private taxicab companies provide shared-ride taxi service to the public under purchase-of-service arrangements with local authorities.

* In a score of communities employers help their employees to set up vanpools and carpools, or else provide private bus service, as in the case of Control Data in Minneapolis, Atlantic Richfield in Houston and Los Angeles, and the Reader's Digest Company in suburban Westchester County.

* In Pennsylvania's Montgomery County, a non-profit association provides county-wide public transportation through its 14 member taxi companies operating in the county.

* In Minnesota, a recent law authorizes suburban communities to develop their own decentralized, community-based transit systems, using tax proceeds formerly reserved for the metropolitan transit commission.

* In San Francisco, a privately-sponsored van shuttle links a large suburban medical center with a close-by BART station.

* Large developers in Dallas TX and Orange County CA are underwriting major road improvements that will improve access to their facilities, and are subsidizing taxi service within their residential developments. Builders of regional shopping malls are thinking more seriously about subsidizing shuttle services for shoppers in exchange for reduced parking space requirements. The list could go on...

There is thus an encouraging movement afoot to reform local transportation — to make it more flexible, more responsive to the multiple demands within a community, more accountable to local citizens and, of course, more efficient and cost-effective. However, most communities do not possess the expertise to develop new alternatives or to devise strategies to involve the private sector in transportation service delivery.

This is where we see a role for the new CORPORATION FOR URBAN MOBILITY. Its mission will be to help local officials think creatively and build bridges to the private sector, as they proceed with the badly needed task of restructuring their local transportation.

In practice, this means three types of activities. First, URBAN MOBILITY will conduct workshops throughout the country to acquaint local public officials, business, and commmunity leaders with innovative transportation service options and with the potential of public/private cooperation.

Second, URBAN MOBILITY will, in response to specific requests, work closely with individual communities and private companies, helping them to design and implement imaginative transportation solutions. In carrying out these assignments, the Corporation's role will be that of a broker helping its clients choose the most appropriate consulting expertise from among a broad network of professionals who have agreed to cooperate with, lend support to, and form "common cause" with the Corporation, and who have been chosen for their proven track record, their ability to think innovatively and work effectively at the interface of the public and private sectors.

Third, URBAN MOBILITY intends to become a voice in support of transportation innovation. It will argue for a relaxation of legal and regulatory barriers that still stand in the way of non-traditional transportation services, and it will seek to promote a better understanding of the concept of public/private cooperation in local transportation service provision.

Finally, a major function of any institution trying to introduce change in a large service delivery system is to facilitate the exchange of information locally and nationally between people who are working on the problem or who are advocating some new solution. CORPORATION FOR URBAN MOBILITY intends to serve that function and become a clearinghouse for information on innovative service delivery arrangements by sponsoring conferences and workshops, developing networks among professionals, and spreading knowledge of successful local initiatives to other communities.

* * *

Let me conclude by saying a few words about the difficulties that still need to be overcome. I have already mentioned one — the lack of an adequate knowledge base and experience with innovative transportation options. Little is known about the economics of private transportation service delivery, or how to integrate private and public services in a community-wide transportation system. There is also a dearth of experience with developing effective public/private partnerships in the provision of local transportation. It is the aim of CORPORATION FOR URBAN MOBILITY to acquire expertise in this field.

Secondly, there is likely to be suspicion and resistance on the part of many public transit officials, who may perceive the Corporation's efforts as an attempt to "skim the cream" of the transportation market. I think this problem can be alleviated by concentrating attention on the suburban market where there is little publicly-provided transit, and on communities where service has been discontinued because of fiscal cutbacks, and where alternative transportation services, therefore, do not pose a threat to established institutions.

More importantly, however, we need to convince the transit community that alternative services do not constitute a threat but, on the contrary, are an important ally in the common effort to improve the productivity of public transportation. Alternative transportation services offer public transit authorities an "out" — an opportunity to withdraw from the task of providing costly, money-losing suburban services, and to concentrate on transit's traditional market — the dense, high-ridership routes of the central city — where the economics of service delivery is more attractive.

Looming in the background is the ultimate question: What are the chances of an organization like URBAN MOBILITY of becoming an effective change agent? How much difference can its activities make?

It is safe to say that any public service delivery system is probably too big and too powerful to be forced to change against its will. If change is to occur, there must be incentives for the system itself to want to change. Fortunately, many such incentives are already at work. The present climate of budgetary austerity certainly provides a powerful negative incentive for the local transportation systems to become leaner and more efficient. There are other incentives: rising land values encourage developers to trade-off parking space for collective transportation; concern among employers about their ability to attract labor force — especially lower-paid personnel — to suburban locations with high housing costs stimulates efforts to provide company-sponsored transportation for their employees; labor unions' growing interest in improving the quality of worklife makes them increasingly aware of the need to focus on conditions under which workers commute to their jobs and not just on the conditions in the workplace. Rising automobile sticker prices will tend to reduce the number of households owning two or more cars, and create greater public demand for some form of collective transportation to work, in order to accommodate the second working spouse.

In short, the private sector has an enormous stake in maintaining mobility, and has a strong incentive to encourage development of non-traditional transportation alternatives, where conventional public transportation is inadequate. In addition, some pressure for change will come from within the public transit sector itself — from enlightened managers and officials who recognize the need for greater economy and for closer cooperation with the private sector, and who do not feel threatened by new ways of doing business.

* * *

We stand, I believe, on the brink of a major re-orientation in the way we think about local transportation. Fiscal pressures confronting local government, combined with sharply escalating operating costs and a climate of public disenchantment with regular transit's performance, are prompting local communities to reassess the effectiveness of their current transportation services and to search for more effective and economical alternatives.

The search is leading them away from large, monopolistic, centrally-managed service delivery systems, and toward approaches characterized by decentralized operation, service diversity, competition, and a sense of shared public/private responsibility for service provision. In sum, we are witnessing nothing less than a fundamental rethinking of the basic premises of public transportation. And while the final outcome of this process cannot yet be foreseen, there is sufficient evidence to suggest that it will lead to a major restructuring and redefinition of America's local transportation. CORPORATION FOR URBAN MOBILITY hopes to play a key role in helping to bring about this change.

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Forum

Opinion / Analysis / Commentary

Steering mass transit back to the private sector

By C. Kenneth Orski

The Reagan administration's intent to reduce federal aid to mass transit and eventually to phase out operating subsidies has alarmed mayors and transportation officials.

For cities, the news could not have come at a worse time. Rising fuel prices and generous wage settlements have helped push mass-transit operating costs to new heights. With fares covering less than half of these costs, cities are struggling with record transit deficits. Only federal subsidies have saved many mass-transit systems from financial collapse.

Reducing these subsidies, local officials warn, would be catastrophic for the nation's public transportation.

Or would it?

Certainly any federal cutback would intensify pressures on already financially strapped cities and states, but a reduced federal role could also prove to be a blessing in disguise by jolting cities into the realization that they must seek a more fundamental solution, a radical redefinition of mass transportation.

Any such process must deal with old myths and new realities.

One myth is that transit, by virtue of being a public service, must be provided by tax-supported public agencies. Actually, the private sector, which has an enormous stake in maintaining good transportation, ought to contribute to its operation.

Key beneficiaries of good service include employers who depend on public transit to attract and maintain their workforce, merchants and shopping-center operators who want to preserve convenient access to their facilities, and developers who want to enhance the value of their investments.

All should be considered potential providers of mass transportation.

A second myth is that in the interest of efficiency, transit systems must be sheltered from competition and run as area-wide public monoplies. Actually, many transportation needs can be better met by small-scale systems, organized and funded locally and run by private operators. Such systems are more adept at providing custom services and are likely to operate at less cost than centrally managed systems run by regional public bodies that suffer from the inefficiencies of large bureaucracies.

Once we discard the obsolete idea that transit must remain the exclusive domain of public authorities, we can choose from a number of innovative options. A few examples will suffice.

Express services, offered by subscription by private charter bus operators, could take commuters from suburbs to downtown destinations, and from suburb to suburb.

Shared-taxi services, furnished by private operators, could substitute for regular bus service on certain routes at night and on weekends, when the demand for transit is too low to justify running full-sized buses.

Employer-provided transportation to work — van pools and company-operated buses, for example — could become a standard provision of collective-bargaining agreements.

Community-sponsored minibus systems, operated under contract by private companies, could provide local service within suburban communities; privately funded and operated shuttle systems could supplement this service by providing access to regional malls and to major suburban employment centers.

Special on-call transportation services for elderly and handicapped persons, run by voluntary social-service organizations, could replace the expensive regulatory approach that requires municipalities to furnish buses that can accommodate wheelchairs.

Neighborhood-based private automobile lease and rental agencies could provide urbanites with efficient, inexpensive "public automobile" service.

To be sure, these options would not eliminate the need for conventional mass transit, but they might enable municipalities to eliminate enough unproductive services to place the remaining transit operations on a sounder fiscal basis.

How do we get there from here?

Part of the answer lies in providing incentives to employers and businesses to furnish privately funded transportation services — in the same way that tax breaks and other inducements are expected to attract small industry to inner-city "enterprise zones." Another step would be to relax federal regulations and state and local laws that inhibit the introduction of innovative transportation services.

Above all, we need a change in perspective that recognizes the provision of transportation as a joint responsibility of the public and private sectors and that regards a pluralistic approach and competition in delivery of service as essential conditions to restoring vitality to urban transportation.

Orski, vice president of the German Marshall Fund of the United States (an American organization), from 1974 to 1978 was associate administrator for policy at the Urban Mass Transportation Administration. He wrote this for the New York Times.

Presentation by Mitchell Sviridoff, President
Local Initiatives Support Corporation
July 29, 1981

Senate Intergovernmental Relations Subcommittee
Forum on Alternatives to Public Service Delivery

There is no question that the most promising current alternatives to the direct provision of services by government are those in which public dollars can be coupled with private ones, and in which public institutions can work through local, independent nonprofit organizations. In many years at the Ford Foundation, and now in the Local Initiatives Support Corporation, I have observed a growing -- and increasingly effective -- collaboration between government, private industry and community-based organizations that has encompassed an enormous variety of programs once considered the sole burden of government. That is the alternative delivery mechanism that I will try briefly to describe.

At the same time, I want to begin with a word of caution about the idea of alternatives and about the hope of replacing the traditional role of government either with nonprofit corporations or with corporate social investment, or even with both. There are certain important functions of government that are by their nature necessarily public. That is not just a philosophical point, it is a practical one. No amount of private sacrifice can replace the size or the potential power of public dollars in providing the core funding, the initial lever, for development projects of any scale. The alternative to government support of many kinds of services -- certain important aspects of community development included -- is simply not to provide those services. But if we mean by alternatives that we are prepared to look for ways in which responsibilities might be more broadly distributed, and in which the requirements for capital and creativity might be satisfied by the institutions best suited to them, then I believe there are interesting alternatives already in place, and we can learn something from them.

Increasingly, at both the local and national levels the private sector has responded to an enlightened self-interest, and to the pressures put on it by public-interest groups and government, with a growing spirit of social investment. That response has been frequently tentative, often nervous, but the size of it has been significant and is already producing results. The social investment I refer to has taken the form both of corporate giving -- already the lion's share of total philanthropy in this country -- and of concessionary lending, strategic equity investing, executive sharing, technical assistance and various other valuable financial and technical contributions to areas, particularly development, that were once left to private charity and government.

In organizing the Local Initiatives Support Corporation, which is a lending and grantmaking institution that supports community-based development projects across the country, we began with the two elements to which I alluded at the outset: accomplished, independent, community-based development corporations on the one hand, and interested corporate social-investors on the other. We began with roughly ten million dollars, approximately half that amount from private companies. We set out to use that money to provide loans, grants and technical assistance to maybe twenty community development organizations nationwide, largely on the belief that that was the number of experienced neighborhood organizations currently operating. We soon discovered that the promising opportunities for this kind of support were many more than twenty, and we have so far made nearly seventy grants and loans in our first year of operation, with many more in the pipeline. Our corporate resources have also grown: our total funds will be nearer to 25 million by the end of the year, with more than half of that from corporate contributors.

More significantly, the funds LISC grants or invests in these development projects are almost never the only private dollars in those projects. There is in most cases at least one local, private dollar independently granted for every national private dollar granted by LISC, and the leverage ratio for private debt capital is most often even greater. That means that, for the roughly five million dollars in grants and loans we have made so far, there are perhaps another five to ten million in other private funds similarly granted or invested -- to say nothing of many millions of public dollars also invested in these projects.

Occasionally, we have even found that, when LISC makes funds available to community development projects, those projects then attract so much additional local support that our funds become unnecessary. There are at least two important lessons in all this: that the skill and entrepreneurship of many community development organizations is frequently unknown even to potential supporters in their own communities, and that both the organizations and the level of support can be expanded and encouraged by private as well as public effort.

In encouraging the success of community-based development, there is much more than economy to be gained by the mobilizing of private support. At least as important is the need to assist the more promising of these organizations toward a more diversified -- and consequently more reliable - pool of funding sources, one not wholly dependent on changeable government programs or the continued contributions of any single large sponsor. That kind of independence carries with it the need for better fiscal management and an ability to satisfy various sources that their funds are well accounted-for and well used. That requires exceptional management, and consequently an administrative budget that is not simply an afterthought to project funding, but that is stable and adequate. It is that budget that makes possible the kind of staff that can carry out the complicated work of project development and execution.

But just as important, in their effort to diversify their sources of funds, community development organizations will need to be helped toward the development of projects that will increase and safeguard their real assets, and that most importantly will begin to realize some return on those assets. To focus on assets, rather than directly on the provision of services, is neither to ignore the importance of human services in developing communities nor to overvalue the simple accumulation of property. Rather, we have found that, for the long-term stability and growth of a community institution, a risky year-by-year dependence on grants and contracts for services can easily fall prey to changes in the economic and political climate that may dampen local economic initiative. In any case, an overdependence on fundraising alone inhibits long-range planning, discourages investment, and reduces the prospects for effective fiscal management, three elements essential to the more complicated, and often more expensive fields of physical and economic development.

It is precisely because of the demands of these more technical fields that LISC has focused its granting and investing on community development organizations of demonstrated experience and skill. This is a natural focus for private-sector investors, who are inclined to support winners wherever possible. That means that, for newly-organized communities without benefit of technical advice and experience, government support and particularly that of foundations are likely to be the only sources of early, flexible money. And yet, without such flexible funds, there will be no realistic hope of such communities eventually competing for the private-sector support I have described. Government and foundation support so far remains the natural seed-bed for the experienced community development organizations of the next generation.

For now, the focus of LISC's efforts -- and of many other private sponsors of community development -- is on a variety of characteristics typical of more experienced and sophisticated organizations that include:

- strong and knowledgeable local leadership, headed by a proven "public entrepreneur";
- staff with strong operational background;
- a solid base of community support and voluntary participation;
- effective relations with local government;
- a record of experience in managing physical development or social service programs, including the commitment and ability to use internal financial controls;

- appreciation of the complexity of neighborhood revitalization and the dynamics of the development process;
- potential for local public- and private-sector backing and cooperation, with some demonstrated leveraging of key local funding sources.

Taken together, these characteristics describe an ideal, fully-developed community organization that presumably would require no help. But realistically, no group selected for help by LISC is likely to possess all of the ideal characteristics; most will show a clear advantage in some areas, but not others. In selecting organizations for grants and investments, allowance is naturally made for a fair geographic, racial and ethnic mix among the organizations supported and, for LISC's own purposes, a reasonable mix of different types of programs.

As we look ahead, we can foresee an intersection between our emphasis on building income-producing assets for community organizations and a gradual increase in the number and kind of projects those organizations can develop, assuming a reasonable level of local and national government support. Indeed, housing services have already emerged as a way for community organizations not only to provide needed services but also to generate a reliable source of income to support other projects or kinds of services. In housing and in various other fields, the opportunity exists, and is increasingly being taken, for a three-way partnership among community, corporate and government institutions for both improving services and reducing the overall financial burden on government.

Senator **Durenberger**. I also want to say "Thank you" to this morning's panelists. We will be back at 2 o'clock in this room for some additional testimony.

Thank you all very much.

[Whereupon, at 11:25 a.m., the subcommittee recessed, to reconvene at 2 p.m. the same day.]

AFTER RECESS

Senator **Durenberger**. The hearing will come to order.

I appreciate seeing everybody back again this afternoon. This is the kind of consistency and continuity we will need in this most difficult process of examining the alternatives in service delivery.

We examined a variety of delivery mechanisms and deliverers this morning. We will talk now about another form which we have not addressed specifically with the help of our first witness this afternoon, who is William White. He is senior vice president of the Hospital Corporation of America, which is one of the largest, if not the largest, private hospital companies in the country. It has responded to local governments in more than 50 communities across the United States, which, for one reason or another, are no longer willing or able to operate their own hospitals.

We welcome Mr. White.

Our ground rules are basically—I am sorry, we have a new review panel here. Mayor Henry Cisneros from San Antonio, who was with us this morning; Dr. Gray, who was with us yesterday and this morning; Jim Scott, who is County Commissioner from Fairfax County, Va., which is one of my home counties; and from yesterday's panel, Anthony Downs.

We appreciate your being here, Bill. Please go right ahead.

TESTIMONY OF WILLIAM G. WHITE, SENIOR VICE PRESIDENT, HOSPITAL CORPORATION OF AMERICA, NASHVILLE, TENN.

Mr. **White**. Thank you, Senator Durenberger.

We are proud to be here.

I am going to make some assumptions, if I might. One assumption being that the panel has had an opportunity to review in advance my submitted statement. However, I would like to highlight the remarks, if I might.

Senator **Durenberger**. Everyone's complete written statement will be made a part of the record. You are welcome to summarize it.

Mr. **White**. We are very proud to have this opportunity to come and appear before the forum. This forum on alternative service delivery, from my perspective, and our company's perspective, should certainly introduce and discuss health care delivery.

I believe we are the largest health care company in the world; however, there might be some room for argument, depending on how you measure size. Senator, as you pointed out so well, we are involved in more than 50 communities—both from an ownership standpoint and from a management standpoint—in providing an alternative service to health care delivery, which heretofore was provided by the public sector. The company operates what may be described as one of the largest and leading health care systems in the world, currently encompassing 202 hospitals and 30,000-plus beds. It operates in 30 States and 4 foreign countries. Encompassed within that group are 62 hospitals which we manage for other owners. This includes municipalities, religious organizations and community not-for-profit hospitals.

There are 40,000 plus physicians who serve our system. These are physicians who are in private practice. They have admitting privileges to our institutions, and they support their patients in those facilities. The system is also supported by some 60,000 employees. Since 1968, when the company was founded, we have built 102 new hospitals. We are not in the construction business, except for our own portfolio.

From my perspective, having been on both sides of the fence, so to speak—a manager in a not-for-profit religious hospital, prior to joining Hospital Corporation of America, and now having been associated with HCA for some 9 years—I think I can say with some degree of certainty that HCA's growth has resulted primarily from our emphasis on quality patient care, a philosophy of local autonomy, decentralized management, and what I personally believe is a real sensitivity to the local needs of the communities we serve. Not only is HCA providing this type of approach and philosophy, but so are other investor-owned management companies throughout the world: Humana, AMI, Life Mark, et cetera. They are providing this same kind of alternative to the public sector.

One of the things which might be of significant interest to the members of the review panel and to you, Senator, would be that, when we consider going into a community to provide an alternative, we think one of the more important areas which should be addressed is in regard to the social issues. The economic issues are a catalyst to get there in the first place. More important are the folks out there in the towns, communities, and counties whom we want to serve. They have to be concerned about the future of health care, both from a personal health standpoint as well as from an economic standpoint. And a number of social issues, such as indigent care—care for the poor—have to be addressed.

What kind of organization is going to now be entrusted with the responsibility for delivering health care in the future? Is it the kind of organization that the community and the citizens want in the community? Is it the kind of organization that has the financial strength and the philosophical strength to take care of both the financial and social needs of the community now and in the future? Typically, most communities will follow a protocol for initially reaching the decision to convert their public facilities to the private sector; and then to include a determination of eligibility for a credentialling process for the private sector organizations who may be interested.

Another stage of the protocol would be the economic and social considerations. This would include: What are the benefits to the economy; what are the benefits in terms of employment; what are the benefits in terms of new facilities, services and more advanced technology in the community; and how are they to be provided? What kind of local input is going to be provided in the day-to-day management and policymaking activities of the organization? What kinds of contractual considerations should be taken into account in terms of what is going to happen to the poor and the near-poor? What is going to happen to the emergency and crisis communication systems that might have existed in the community? What is going to happen to the employees in the system? Are they going to be given employment in our group? Are they going to be given the same degree of fringe benefits that they currently enjoy? Are there going to be more opportunities for more employment in the community?

The care of minorities, too, is a big issue throughout the country. Many times, organizations, even those organizations like ours, get challenged about whether or not they are undertaking the responsibility they should—do they provide for their fair share. I think the track record of our industry, the Hospital Corporation of America, will speak to the fact that, "Yes, we do."

I said all of that, Senator Durenberger, simply to reach a conclusion. The conclusion is that I am not here to convince you or the members of your panel there is a viable alternative to the public sector delivery of health services. I am here to say it thrives; it exists; and it has existed since the late sixties and early seventies. Over that period of time we have evolved to a point where we serve more than 50 communities which heretofore were publicly served.

We are also currently involved in Prince Georges County, Md., in an effort by the county administration and the county council to determine whether or not they should pursue this alternative route, and should it be through the Hospital Corporation of America. The various issues they are addressing are the kinds of things that are important to them, their voters, their taxpayers, the employees, the unions, and the physicians. They have established a relationship with the University of Maryland. These were all elements of the protocol they set up, to evaluate the various health care companies. They have finally chosen to negotiate with HCA. Hopefully, they will reach a conclusion some time in September as to whether or not they will proceed with this alternative.

I would suggest, in closing, two things: (1) The Prince Georges County protocol might be used by other municipalities in evaluating whether or not to pursue alternatives; and (2) for purposes of the credentialling process, make sure the health care organization to which they are planning to convert the public system is the right organization—that it can deliver and/or guarantee continuity of services.

I believe another issue, too, is the sensitivity of the whole of all issues associated with health care and the conversion of public hospitals to the private sector—an issue that is fraught with a lot of concerns and sensitivities. There might also be an opportunity to deal with this health alternative issue as a special issue in and of itself.

With those concluding thoughts, Senator, I will now take any questions.

Senator DURENBERGER. Thank you very much for your presentation. Mayor, do you want to be the first? Mr. Scott?

JAMES SCOTT [MEMBER, REVIEW PANEL], COMMISSIONER, FAIRFAX, VA.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. White, I am always intrigued by a statement like the one on page 8, which talks about apprehension of county politics and bureaucracy—particularly from a corporation which has 60,000 employees and 40,000 physicians. I am sure you are not unfamiliar with either of those, bureaucracy or politics. What I want to ask you is, How do you insure community input? What real influence does the community have in establishing policy?

You also talked about the services created by public policy as being necessary. What role does a corporation such as HCA have in providing the services that you describe on page 8?

Mr. White. An answer to the first question, Mr. Scott, might best be accomplished by stating my personal experience. Having been on both sides of the fence—that is, the public not-for-profit sector as well as the investor-owned sector—I know that HCA's approach to providing for local input is much more effective and much more broad scoped than is the nonprofit sector's approach. Quite frankly, the chief executive officer in the nonprofit sector hospitals with which I was associated pretty much set the tone, the philosophy, and the policy. The board was represented by people who really wanted to have only some token input.

Hospital Corporation of America is an operating company; yet all of its hospitals are incorporated as separate legal entities having their own board, typically made up of nine members. Our administrator is our only representative on the board. He serves as the secretary in getting out the agendas, the meeting notices, et cetera. He also carries a vote on the board. Other than our administrator, the board is made up of representatives from the medical community, consumers, civic organizations, and business entities. We always stagger the terms—1, 2, or 3 years—so as to always have fresh input from the community for setting out local philosophy and policy. We cannot run our hospitals from Nashville, Tenn.

I think that this local autonomy approach is why, with 60,000 employees and 40,000 physicians serving our system, we are able to overcome a lot of the bureaucratic process that you might ordinarily expect in an organization of our size. With respect to providing services which are set by public policy, I think the Prince Georges experience is a prime example. This also goes back to your first question to some extent—the oversight board and local institutional boards.

There will be an oversight board set up by the county for purposes of monitoring the provision of the guarantees of our lease agreement to make sure they are delivered, and are delivered in the fashion and quality provided for in the agreement itself. Then also the local boards will have representation which is nominated by the county council. This will give some added assurance to the citizenry that we are going to deliver, and that they are going to have oversight representation.

We have guaranteed the same scope and intensity of community services in the future that currently exist. We have accomplished this by a lease agreement which provides that the base level will be the availability of these services, that they will be staffed, and that additional resources will be provided as the utilization of these services expands in the future.

These services include crisis centers with crisis communication capability; freestanding urgent care centers, which is what I would call a broad scope primary care center; two acute medical surgical hospitals; a nursing home; a day care center; a parking garage; and a number of clinics for the poor and the near-poor in Prince Georges County. We have guaranteed in the lease agreement to continue those elements of service.

Senator **Durenberger.** Jim, do you have a follow-on question? We are going to have to keep the answers a little shorter? Do you have a follow-on question?

Mr. **Scott.** I want to be sure that I understand exactly what the oversight board does, what its power is, and how it works.

Mr. **White.** It is responsible for monitoring in that the provisions of the lease itself are carried out.

Mr. **Scott.** Appointments are made by the county council?

Mr. **White.** Yes, sir.

Mr. **Scott.** Will they have the authority to cause the HCA to do something or not do something?

Mr. **White.** If they determine that we are not carrying out the tenets of the lease, there are provisions for default and for remedying these defaults. If there are not remedial default provisions, the lease can actually be terminated.

Senator **Durenberger.** Tony?

ANTHONY DOWNS [MEMBER, REVIEW PANEL], SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. **Downs.** In the normal hospital operation, there is probably some kind of cross-subsidy between rates charged typical patients in the in middle- and upper-income groups and rates charged lower-income patients, assuming the latter have lower fees. The doctors do some of that themselves, but the hospital may also.

Do you find that has been happening in a place you take over? Do you try to continue that? How do you handle that?

Mr. **White.** Mr. Downs, we handle that in the same fashion that it has been handled, sometimes better.

Each of us, whether we have a single provider of health care or multiple providers in a community, we have to do our fair share in terms of charity and providing care to the people who do not have the resources to pay. We have got to do that.

Mr. **Downs.** Do you have some systematic approach to it? Is that a conscious policy on your part?

Mr. **White.** The basic policy is that no patient who is admitted to our hospital by a doctor is going to be refused care for a lack of financial resources. From that point, the system proceeds.

Mr. **Downs.** You said that you think the quality of care has improved, or at least is the same; but basically you say it has improved. How do you measure that?

Mr. **White.** Basically we have, since 1973, adopted a system which is a quality assurance program. It was implemented in all of our hospitals by the medical communities serving those hospitals. That is the tool by which we measure the hands-on care, the patient assessment of the care and also the nursing assessment of the care. The process provides for outcomes. If there are weaknesses in the outcomes, then we will provide training and education to strengthen those people who have responsibility for hands-on care, thereby improving the quality.

Mr. DOWNS. Is that information available to the public?

Mr. WHITE. Sure, you may call on any of our hospitals.

Mr. DOWNS. I have one last question. The few hospitals I have been connected with have been dominated by the doctors as a collegial group. They tell the hospital what to do, more or less. You are a separate corporation which is really different from the doctors. How do you handle relationships with that collegial group which normally would have been running your hospitals?

Mr. WHITE. It has been a slow process to bring them around.

Mr. DOWNS. Do you have any suggestions for others?

Mr. WHITE. I think one of the big arguments that doctors have had about the administration of hospitals, in years gone by, is a lack of response. If you tell a doctor "No" and explain why, it is a much better response than just saying "No" or never giving the doctor an answer.

We have found that being up front with the medical community and allowing them input to our policymaking has been a good catalyst behind better physician relations.

Mr. DOWNS. Those are all my questions.

Senator DURENBERGER. Mel?

Mr. GRAY. I would like to home in on one of the things you touched on. You mentioned the outcome measures. I am curious to know if you can show us an example of some of the outcome measures used to measure performance.

Mr. WHITE. From the clinical side?

Mr. GRAY. We can try that.

Mr. WHITE. For example, the medical staff may set parameters with respect to what should be the normal length of stay of a given diagnosis. The data aspect of the system will provide the feedback in terms of when a case actually falls outside of those parameters. That case is then examined by the audit committee for purposes of additional input. They may then decide, because they have so many of these diagnoses falling outside the parameter, that they need to set up a special committee to look at what types of education and training are needed for the nursing or medical staff—wherever the problem is—in order to enhance their strength and better respond to those problems.

Mr. GRAY. So there is some standard that is set, and there is a means of achieving that?

Mr. WHITE. By diagnosis.

Mr. GRAY. My curiosity springs from the fact that I am usually exposed to cost-per-patient-day, which is a measure of inputs rather than outputs.

One additional question: Since you feel compelled to respond to specific community needs and to tailor health care delivery to various communities, I wonder if that offsets what might otherwise be economies of scale which you could have realized through a larger scale operation.

Mr. WHITE. Dr. Gray, I am sure that there are instances where it could. To date, we have not experienced that. The efficiencies our system has to offer—the employment of sound and proven management techniques—have brought about, over time, the efficiencies in productivity that mitigate against the cost of those social services.

Mr. GRAY. Those are my questions.

Mr. **Cisneros.** I have two quick questions, Mr. White.

As municipalities and counties look toward privatization of various activities and hospitals, one of the questions that always comes up—and might have a great determination as to what they finally do—is the disposition of existing employees. In some instances, union activity already exists in those facilities—for example, the American Federation of State, County and Municipality Employees. What is your approach to those two issues?

Mr. **White.** First of all, we need people to run our facilities. Therefore, it is important that we guarantee the continuity of employment to the existing employee groups there. We have done that at Prince Georges County.

In addition, I believe Prince Georges County is a prime example in that all four of the unions representing the employee groups have actually given input to the council including asking the council's support to approve the proposed lease arrangement.

As a "successor employer," according to the National Labor Relations Act, we have to recognize the continuity of their existing bargaining agreements and entities representing the employees.

Mr. **Cisneros.** My second question is more general. Having served in a not-for-profit hospital as an administrator and now as an officer in the Hospital Corporation of America, to what key thing do you attribute the difference in operation that results in one system working and the other one often ending up as a financial problem?

Mr. **White.** My own personal opinion, Mayor, is that it is a matter of philosophy. On the one hand, you have an investor-owned, free enterprise kind of philosophy, which is motivated by the basic tenents of free enterprise. On the other hand—the not-for-profit—you do not have those same motives built into the system.

I guess because of my upbringing, when I was "playing" administrator in a nonprofit hospital, and we couldn't get the support of the board to do something that we knew would bring greater productivity and maybe allow us to pay our employees more and expand our services, it was frustrating. However, in a free enterprise system, such as the one I am associated with now, we have those incentives. We are prepared to spend the dollars and the resources to bring about a better product or service.

Mr. **Cisneros.** Thank you.

Senator **Durenberger.** Let me ask that question in a somewhat different way.

The title of this forum is "Alternatives to Public Service." Let me ask you about private hospitals or for-profit hospitals generally. Alternative to what? There is a whole variety of hospitals in this country and a whole variety of definitions—from the charity hospitals, then the public general hospitals through to the largely private not-for-profit system. Would you, as you trace the development of HCA and some of the other private for-profit hospitals in the country, show us where you are an alternative to what, what kind of communities, and where you see this trend going in the future?

Mr. **White.** Senator, I think, since 1935, there has been an evolution taking place in America. Most of the investor-owned hospitals were built to accommodate doctors' needs because they didn't have a hospital in which to put their patients. Over the years, that has diminished. What is taking its place now has been organizations like ours.

I would like to grade, if I might, the philosophy on one side of the fence versus the other. I think in a public hospital you have that same lack of incentive or motivation I mentioned a minute ago. You also have layers of bureaucracy and policy issues that have to do with the feelings of a constituency of elected officials getting into the process and precluding some of the positive outcomes that might otherwise occur.

Another issue is also important. That is, I am not here to suggest the investor-owned sector is the only sector of the health industry that would provide a viable alternative to the public hospital. There are not-for-profit multifacility organizations which have evolved in the last few years and are doing a good job. They are beginning to develop similar kinds of systems and business techniques that we have. In fact, they are kind of piggy-backing on what we started back in the late sixties.

Senator **Durenberger**. I am trying to practically trace for people who might buy the notion that you are right and that you are on the cutting edge of things. Yet, in large cities, these people are dependent on large publicly owned hospitals with a lot of general hospital characteristics. To be a State, county, or local general hospital, there is an obligation to take that charity work, take—as somebody said here yesterday—the scratches and the bruises, and fill up the emergency room beds. This would not happen in the private hospital because somehow or another it would cut into the profit.

As I look, say, around my own community for the investor-owned or for-profit hospitals where some others may have gone broke—in effect, rural areas, the small towns and to a degree the suburban areas—I don't see them in Minneapolis or St. Paul. What I see is what you said second, some of the nonprofits are starting to put on the clothing of the for-profits and to act in a more cost-efficient manner. I have to say to myself also that we talk about hospital cost containment. We have had PSRO's and HSA's. We have had a whole variety of things out there which could be one of the reasons why some of these things are happening.

So, my question to you really is, where is the market for the for-profit hospital in this country?

Mr. **White**. The market for the for-profit hospital really centers more, in my opinion, in the public sector than it does in the private.

Prince Georges is probably a milestone in the evolution of converting public hospitals to private. We are, in 50 communities, serving what heretofore were municipal hospitals. Prince Georges will mark the first time in our company's history that we have had the opportunity to commit to an entire delivery system which is not just an acute medical surgical hospital. It includes free-standing activities, nursing home activities, crisis centers, a rape crisis center, a rehab center, and substance abuse systems—the whole gamut. We think as a result of this milestone, we will see more of those opportunities evolving.

I had a call the other day. A gentleman associated with one of your large hospitals in St. Paul asked me to come and visit with him to discuss their situation. There are two or three hospitals in Minnesota, including St. Paul, mandated by the State legislature to provide care to the poor.

Senator **Durenberger**. Do I hear you say there are really no foreseeable impediments, really no markets you can't go into somewhere in the future?

Mr. **White**. I believe that is true.

Senator **Durenberger**. Any other questions?

Mr. **Scott**. It seems to me that you are saying the private sector has not done what the mayor has had to do. Your opportunity in Prince Georges, which has not yet been approved by the county council, may give you an opportunity for a real test. However, you don't know the answer yet.

Mr. **White**. That is true. In that broad scope, Mr. Scott, you are absolutely correct.

Senator **Durenberger**. You still need an 8½-percent or a 5-percent differential for nursing on medicare and a few other artificialities—perhaps some people might call them—in order to serve some of those populations.

Anyway, thank you very much.

Mr. **White**. We appreciate your support.

[The prepared statement of Mr. White follows:]

PREPARED STATEMENT OF WILLIAM G. WHITE, SENIOR VICE PRESIDENT, HOSPITAL CORPORATION OF AMERICA, NASHVILLE, TENN.

On behalf of Hospital Corporation of America, one of the world's largest and leading health care companies, I appreciate this opportunity to present our Company's views on alternatives for health systems in the municipal setting for your "Forum on Alternative Service Delivery." I am William G. White, a career health professional and Senior Vice President of Hospital Corporation of America, responsible for our Company's mergers and acquisitions (see accompanying profile).

Hospital Corporation of America operates one of the world's largest systems of owned and managed hospitals with 203 hospitals encompassing 30,544 beds, serving small rural communities as well as large urban and suburban medical centers in thirty (30) states and four (4) foreign countries. The owned facilities were all built or acquired with private capital. Included in our system are 62 hospitals which we manage under contract, including teaching hospitals, public institutions (of various types of political subdivision controls), religious and other community nonprofit hospitals. Supporting our total system are more than 40,000 physicians and 60,000 employees.

Our growth has been rather dramatic, and the degree of success Hospital Corporation of America and our competitor health care companies have enjoyed over the past decade has been as a direct result of, among other things, the economies of scale enjoyed within our multi-facility systems and the employment of effective management techniques in the day-to-day operations of our hospitals. Hospital Corporation of America's philosophy on decentralized management, local autonomy, and quality delivery have been the important catalysts behind our Company's growth and success. Our mission at HCA has also contributed to that success.

Our mission is:

To attain international leadership
in the health care field.

To provide excellence in health care.

To improve the standards of
health care in communities in which we
operate.

To provide superior facilities and
needed services to enable physicians to best
serve the needs of their patients.

To generate measurable benefits for:
The Company
The Medical Staff
The Employee
The Investor
and, most importantly,

THE PATIENT

I am not here to convince you that investor-owned health care organizations can be an effective alternative for the delivery of municipal health services and that such an alternative can fulfill all of a municipality's needs in a socially acceptable fashion. I am here to say that such alternatives exist and have existed, to my personal knowledge, since the early 1970s, and, in our Company's experiences, are working very well.

These alternatives for the transfer of control and responsibility for the financing and delivery of health services are being accomplished, principally, through either a sale or lease of the municipal health system. Another alternative is a management contract where day-to-day operating responsibility of the facility(s) is transferred to the management company, but the ownership, policy making and funding responsibilities are retained by the municipality. The management contract approach usually provides the municipality access to the management company's national purchasing contracts for supplies, equipment, other economy-of-scale services, and their management systems, all of which can result in significant economic benefits for the municipality - in many cases greatly exceeding the management fee.

I respectfully submit that our Company and other investor-owned health care companies (from my own personal knowledge) such as Humana, National Medical Enterprises, American Medical International, Charter Medical Corporation, Hospital Affiliates International, LifeMark and many others, have provided and are currently providing meaningful and effective alternatives to municipal health service delivery. I also respectfully submit that the transfer of responsibility from public to private has been handled very well, particularly with regard to the social equity issues which concern all of us, including but not limited to medical education, indigent care, emergency and community crisis centers.

Hospital Corporation of America currently owns or leases more than twenty-five (25) hospitals, which were previously owned or controlled by municipalities. Many of these hospitals are the only health facility serving the city and/or county where they are located. Being the sole provider in a market is an awesome responsibility, and an investor-owned health care company fulfilling such a role must go far beyond the norm in demonstrating to all publics that its profit motive results from a more important motive, which is to satisfy health needs and demands in a quality fashion. Some detractors have said that investor-owned health care companies are only interested in the larger municipal hospitals located in conservative markets, wherein lies a broad enough base to absorb unprofitable but socially required services. This statement is not true. We at Hospital Corporation of America are not constrained by size or geography as demonstrated with the following sample listing of HCA hospitals which were previously owned or controlled by municipalities:

HOSPITAL	LOCATION	BEDS
City of Milan Hospital	Milan, Tennessee	52
Aiken Community Hospital	Aiken, South Carolina	188
City of Edmond Hospital	Edmond, Oklahoma	98
Brownwood Regional Hospital	Brownwood, Texas	158
Helena Hospital	Helena, Arkansas	140
Quincy City Hospital	Quincy, Massachusetts	374
Wyoming County Hospital	Warsaw, New York	180
Lawnwood Hospital	Ft. Pierce, Florida	235
Guadalupe Medical Center	Carlsbad, New Mexico	130
White County Hospital	Sparta, Tennessee	60

There are usually many reasons why municipalities are looking for alternatives in the delivery of health services to its citizenry. One of the more overriding reasons has been the desire to preclude further financial burden on the taxpayers when faced with the need for additional capital for expansion and/or renovation or replacement of facilities, and additional monetary resources to fund growing deficits in some municipally operated health systems. In Ft. Pierce, Florida, the taxpayers were asked on at least two occasions to support a referendum for issuing bonds to build a replacement hospital for its aging county-controlled facility. The referendums failed by large margins, resulting in the elected officials contracting with Hospital Corporation of America to lease the existing facility while HCA, employing its own capital, was building a new and modern 235-bed replacement hospital. In turn, HCA assured the availability of future health services to all of the citizens/taxpayers and became a contributor to the local property tax base as opposed to a drain thereon.

In Carlsbad, New Mexico, HCA was called on to consolidate two old, outdated hospitals and build a modern, 130-bed replacement hospital. Both the consolidation and replacement projects resulted in the avoidance of further duplication and overlapping of costly services as well as the provision to the citizen/taxpayers of Carlsbad and Eddy County of a first-class medical center and additional physician specialists, avoiding the continuing need for traveling three hours to El Paso, Texas and other regional cities for essential medical care. Again, the HCA alternative precluded further financial burden on the Eddy County and City of Carlsbad taxpayers.

Benefits other than capital have accrued to the municipalities where HCA and other health care management companies have successfully converted public hospitals to the private sector. In 1980, Hospital Corporation of America paid the following amounts in property taxes to this sampling of municipalities:

CITY/COUNTY	AMOUNT
Aiken, South Carolina	$166,387
Myrtle Beach, South Carolina	$ 57,725
Caldwell, Idaho	$154,074
Carlsbad, New Mexico	$ 58,388
Ft. Pierce, Florida	$200,272
Okeechobee, Florida	$ 46,009

The total contribution to municipal property taxes in 1980 throughout the HCA system was $9.7 Million. Municipalities also receive back some benefit from federal and state income taxes paid by HCA and other investor-owned health care management companies. During the period from 1976 through 1980, Hospital Corporation of America's accural for federal and state income taxes was approximately $242 Million.

I mentioned the preceding facts only to emphasize that Hospital Corporation of America and other investor-owned health care management companies are not only viable alternatives for municipalities in health service delivery in a socially acceptable fashion, but are also organizations which become contributors to the local economy not drains therefrom.

Other issues which have motivated some municipal leaders to convert their public systems to the private sector include:

1) Lack of availability of capital
2) Cost of capital
3) Taxpayer concerns/revolts
4) Growing encroachment of federal and state government
5) Growing concerns by medical community regarding lack of public sector response and eroding levels of quality patient care
6) Availability of human resources
7) Need for elimination of layers of bureaucracy

The decision to convert a publicly owned hospital to private ownership or control must be thoroughly examined. Afterall, the decision can have tremendous impact on the citizen/taxpayers' personal and economic health for many years to come. Not only should the municipal leaders be concerned about the economics of such a decision but also must be concerned about the continuity of quality health care being provided in a socially acceptable fashion. There must be concern for continued availability of not only in-patient and out-patient care in the facilities but also continuity of equity for community services such as rape crisis centers, primary care centers, planned parenthood centers, medical education, free-standing "urgent care" centers. Concerns should also include continuity of employment of hospital staff, at least matching the existing compensation and fringe benefit programs and the availability, funding and delivery of health care for the poor and near-poor. These and many other concerns must be adequately addressed since they were probably among the concerns which originally encouraged municipalities to become providers of health care.

Prince George's County in Maryland recognized the need for a carefully defined program to study the feasibility of free enterprise as an alternative for their health service delivery system.

In December of 1978, their newly elected County Executive stated in his inaugural address that "one of the highest priorities of my administration is to address the financial chaos and duplication which exists in our County-owned hospital system."

In 1979 the Prince George's County System experienced losses in excess of $3.4 Million (before a County contribution of $1.7 Million), was beset by ineffective collection of bad debts, was forced to operate with outdated financial and management information and control systems and "was continually hampered by overlapping bureaucracy" mandated by the several existing layers of hospital boards and commissions. It was the County Administration's opinion that their "own cumbersome governmental system will continue to impede the delivery of health care" to its citizens/taxpayers. The County was not only concerned about burdensome economic issues but also the continuity and availability of quality health care - its financing, including the funding of indigent care and protecting the integrity of various charitable tax-exempt trusts providing financial support to their health systems.

Accordingly, the Prince George's County Administration set up two Task Forces, engaged the services of hospital consultants, met with elected officials, hospital Boards of Directors, the Nurses' Association, medical societies, patients and many private taxpaying citizens. The purpose of these activities was to determine if the County's assumptions represented legitimate concerns or not. The overwhelming consensus was that the County Government should get out of the business of operating its health system - either by sale or lease or management contract. (According to Maryland state law, a sale could not be considered.)

With the consensus support, the County Executive began his efforts, which are continuing today, to transfer the public health system to the private sector. He and his administrative staff recognized the necessity to establish criteria with which to judge any alternative system and at the same time "guarantee the provision of existing services to all County citizens, most especially the poor." The provision for continuity of the following activities in the Prince George's County Health System could apply to most municipalities throughout the United States:

1) Community services created by public policy such as care of the indigent, crisis and emergency communication, out-patient social services, rape crisis centers, drug rehabilitation and other substance abuse programs must be continued;
2) The County Health System's debts and liabilities must be assumed;
3) The governing structure of the health system must be "separated from the bureaucracy and politics of County Government";
4) The community must continue to have input to the governance of the alternative system.

With the criteria developed and a special committee to evaluate proposals, a Request for Proposals (RFP) was issued on September 5, 1980 requesting proposals in the form of a lease for operating the County's entire health system. The committee was assisted by independent consultants and legal counsel.

The special committee reviewed the lease proposals, selected our Company and negotiated a 21-year lease for the Prince George's County Health System. The lease is subject to ratification by the Prince George's County Council; such process is now in progress with the Council having appointed a Special Task Force to review the proposed lease arrangement prior to the requisite public hearings. As in any plan to transfer health care from the public to the private sector, some controversy still exists with respect to the Prince George's project, but we are still hopeful the Council will ratify the lease.

The process of consideration for alternative health services delivery by Prince George's County is lengthy but very important toward an equitable guarantee that the future of health care delivery will be in good hands and that the continuity of present community services and other social needs are contractually provided for now and in the future. We endorse this approach and would recommend it as a model for other municipalities considering such an alternative.

We have experience in other municipalities' decision making process to firstly pursue an alternative delivery system and secondly the selection of the alternative private sector system. Most municipalities I have had experience with follow a protocol very similar to Prince George's in making the decision to seek an alternative delivery system. Our experience with municipalities' selection of the alternative private sector system have varied from the Prince George's approach. Some municipalities go through two stages: firstly, to assess the merits of the competing alternative systems, their track record, philosophy of managment and control, financial strength, etc.; secondly, to seek definitive proposals based on a well-defined RFP from those competing systems which pass the first stage. Some municipalities, where permitted by law, do not seek competitive bids or proposals; they had much rather negotiate with a private system which has a demonstrated track record in working cooperatively with public sector health systems. We would, again, recommend the Prince George's County approach as a possible model.

In every instance in which city or county governments have sold or leased hospitals to HCA, the quality of health care has improved significantly. Testimonials from government officials in the affected communities have appeared in local and national publications and give unquestionable endorsement to my statement.

In closing, I would respectfully suggest that since the issues associated with the decision to seek an alternative private sector health delivery system for a public system are so broad in scope and fraught with many social and politically sensitive issues, you may want to consider a special forum to deal with health care as a single issue.

Hopefully, my observations, while somewhat general, have provided some food for thought on an alternative for public sector health delivery, potential benefits and an approach for accomplishing such an alternative. I will be happy to answer any questions, now or later.

Senator **Durenberger**. Our next witness is Mr. Leonard Wilkening. Leonard is the president and chief executive officer of the Amherst Wilder Foundation in St. Paul, Minn. Leonard has been with Wilder since 1968. He has more than 30 years' experience working for and directing private nonprofit organizations. Wilder is an operating foundation which is devoted exclusively to providing direct health and welfare services. It has been serving the citizens of St. Paul since 1910. It provides us with an excellent example of private-public cooperation for a whole range of services.

You have heard the ground rules. Please proceed in your usual inimitable fashion.

TESTIMONY OF LEONARD H. WILKENING, EXECUTIVE DIRECTOR, THE AMHERST H. WILDER FOUNDATION, ST. PAUL, MINN.

Mr. **Wilkening**. Thank you, Senator, panel members, ladies, and gentlemen.

A word or two about Wilder is probably a little bit in order since several alternatives I would like to discuss are related to the history of the Foundation.

As Senator Durenberger has said, it has been there for 70 years. All of the programs funded by the Foundation are operated by the Foundation. Over a long period of time, this has resulted in multiple types and kinds of initiatives. I think it is best characterized as a responding organization in that, for 70 years, it has attempted to respond to the felt or known needs as perceived by people who live in the community. Because of that, we work with public and private agencies, individuals and organizations in an attempt to develop services to meet those human needs.

I think another characteristic probably related to it is the fact that we do have a funding base of some $5 million a year. This year we operated a program at about $22 million. We are able to leverage money because of that base.

One other thing that might be a characteristic over a long period of years is that it has been a rather high risk organization and somewhat on the cutting edge of attempting to do things in response to those needs. I outlined in my statement the four or five areas in which we are presently operating. What I would like to do is talk about several programs in those areas.

We operate in divisions of services—one to the elderly, another one in housing, one in corrections, and services to children. The children's programs are not mentioned in my statement; however, I did bring along some annual reports if you would like to look at them.[1] They give you a rather good idea of what we do in those areas.

I thought I would take 10 minutes and briefly mention just three programs which I think might be considered—using the definition that was handed out—as real alternatives to public institutions.

We have been operating a rather unique program—a residential correction facility for young adult male felons—for the last 9 or 10 years. That was conceived as a model in an attempt to determine whether or not we could do two or three things with these young men. We wanted to see if we could break the cycle of recidivism. It would appear that, after a period of years, it is possible. We compared the 150-or-so men who have gone through this program to 150 men in the St. Cloud Reformatory. It would appear that we can reduce recidivism better in comparison to other programs. It would also appear to be much less expensive to operate in the way we do.

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[1] The annual reports referred to are retained in subcommittee files.

Two or three side effects have come out of this which were not in the original hypothesis. It is possible to keep families together. These men do live in an open building, and are relating to their families the entire time they are in the program.

We have made a study through Dr. Berger, from our program development office. We do operate a rather full program development office with a research staff.

That is one program about which we are rather excited. It does have some limitations. It might be successful, but it doesn't seem to be politically viable. In the sense, if you are a judge, you are dealing with a felon. If you appoint them to a community facility, it is possible that something will happen to that person. They may run or they may commit another crime. It doesn't look too good. So, I doubt very much that it can be replicated more than two or three times the size we have at the present time.

Recently, in the last 4 or 5 years, we moved into some residential programs for hard core delinquent boys and girls. We operate two camps up north. One is a lease from the State, and we purchased and renovated the other one. The whole purpose of these programs is to try to effect a positive change in the attitude of these young people. This, too, of course, has not been operating long enough to determine whether it is successful.

These young people go to this facility for a period of 12 weeks. It is a very intensive program. It attempts to try and change attitudes and behaviors. We have set up a rather careful control group on this, or a contrasting group—they tell me you can't use the word "control"—a contrasting group, so we can determine whether or not we really are doing anything with them. At this point in time it is highly successful.

I would suggest to you that these two programs are probably a direct alternative to placing people in institutions. I think the private sector can probably operate these kinds of programs as well as the public sector. I think the flexibility that goes with them, and the potential for developing added initiatives, is very real. We do that, of course.

Again, as a responding organization, we normally will only move into something at the request or with the cooperation of the courts, or the juvenile system. We only do that if we think we can employ experienced staff—that is, folks who have worked in this area and understand our design. We normally try to time limit them in order to evaluate them. We usually seek joint funding.

That is one program I think which has some uniqueness in it. There are other areas about which we have been rather excited. Again, in response to a rather terrific housing need in the immediate area, in the last 7 or 8 years we have moved into low- and moderate-income housing. We have built some 700 units. The most recent program was a rather unique condominium development that was funded with tax-exempt industrial bonds, with the Foundation securing the bonds through a program-related investment. Again, any foundation—private or public—can make a program-related investment. The net result, of course, was that we did get a lower interest rate—at that time, an unbelievable 6⅓ percent.

One of the unique parts of this development is that 25 percent of these units, or one out of every four, was developed for low-income families. It is a rather simple thing. We call it internal financing. It is an alternative, we think, to section 8 housing.

The process is pretty simple. We both develop, design, and market the housing in-house. We take a percentage of the normal profits which you would make in the for-profit sector and turn it back. These funds are placed in a pool. The funds are then divided by the number of units. This, of course, makes available subsidy. One person could buy the unit for $60,000. Someone else could buy a unit for $10,000 right next door. There are some problems in marketing, but it seems to work very well.

The purpose was pretty simple: Getting into housing and responding to the need to increase the housing stock. St. Paul obviously had an outmigration from neighborhoods that needed to be stopped or hindered. Of course, it does increase the tax base. The most unique feature was that we were able, we think, to make an alternative to section 8 housing.

The other program—and I see I don't have much time—is in the area of the elderly. We are doing some neat things here right now, with mutual support programs and care giver support programs. One program, we think, which can be replicated and is an alternative to institutional care, is adult day care. We operate a program with 60 or 80 folks whom we bring into a facility from the inner city. These folks come to this program 3 days a week; the cost is about $30 a day. If you contrast that to the normal nursing home at $55 to $60 a day, we are able to take care of persons who have serious or, in many instances, more serious difficulties than those folks in nursing homes.

We do operate two nursing facilities. We think, over a period of 3 or 4 years, that we can come to some conclusion as to whether or not this is truly an alternative. If it is, it would seem to me that it is an alternative which could be replicated both in rural and urban areas. It is obviously an alternative in terms of use of medicaid funds. The availability of those kinds of funds seems to be rather limited at the present time. I think it is an alternative. It keeps people in their own homes with much more dignity, with much more protection, and where we can provide them a battery of services through the community.

I guess I ought to stop, Senator, and answer any questions.

Senator Durenberger. Leonard, thank you very much.

Jim, do you want to start?

Mr. Scott. You mentioned that your budget was somewhere in the neighborhood of $20 million and about $5 million of that came from the Foundation. Roughly, what is the source of your additional funding?

Mr. Wilkening. We do charge fees, depending on the person's ability to pay. We also have purchase of service agreements with the Federal, State, and county groups. We seek some money from other foundations. Those are the other three sources. We have worked on a simple leverage of attempting to find 75 percent of outside funding for any program we develop. Some will go 100 percent while others will go 60 percent; but we work toward that kind of an objective.

Mr. SCOTT. It sounds like quite an exciting—I started to say program, but programs you have developed.

I am struck by the fact that you have been at this for a long time. I think 71 years is the age of your foundation. Obviously, it has not always been easy. I guess the fact that you have had a long time in the field is one of the things that works to your advantage. You know what works and what doesn't work. You have been able to find a successful route to follow.

The point is that your organization has a track record and has some good experiences. It certainly sounds like something to follow. I am sure you wouldn't say that this is an example which applies everywhere.

Mr. WILKENING. That is right; it doesn't. I am not so sure it doesn't have the potential to apply in more places. It is rather unique. It stays in the health and welfare field. It has some flexibility that you don't get other places. It has a funding base. Because of the breadth of it at the present time, it has a variety of professional services which interrelate with each other and on which you can draw.

If you look at it historically, it has been in and out of multiple things over the years because of its apparent approach in terms of responding to the need of the day. Of course, it is able to get out of programs when it feels they can be met somewhere else. It is rather unique in that sense, I think.

Senator DURENBERGER. Tony?

Mr. DOWNS. First, I have a simple, technical question. You said you sold housing to low- and moderate-income households. They were subsidized units of some kind, am I correct?

Mr. WILKENING. Yes.

Mr. DOWNS. Do you have a repurchase agreement? How do you keep them from reselling those units to somebody else and making capital gains?

Mr. WILKENING. The person who buys it at the market rate can sell it at market rate. The person who buys it subsidized must sell it on the same subsidized basis. All they can do is take in the inflation factor. That agreement is in it. Otherwise, they would, obviously, buy in and sell out quickly.

Mr. DOWNS. One of the things that struck me about your written statement is that your assets have a market value, including buildings, of $100 million, and you have been in business a long time, and yet you operate at a very small scale. This is not critical of you; it is looking at your scale compared to the whole problem. In your house for felons, you deal with 30 male felons a year; in your youth camp, 250 young people a year. And you have succeeded in building 100 housing units, which I know is a monumental achievement from having been in that field. Yet, that indicates that even an organization with a tremendous asset base—much bigger than most—and with a long period of experience, is probably providing services which are very small in relation to each of those problems in its community. Would that be a fair conclusion?

Mr. **Wilkening**. That is absolutely true.

Mr. **Downs**. Therefore, it is unlikely that privately funded activities could in any way really be a substitute for publicly funded ones or deal with these problems at the scale necessary to solve those problems.

Would you agree with that?

Mr. **Wilkening**. I would agree with that, Mr. Downs. I think from our perspective—at least of operation—there would be no way that the private sector could deal with the volume of problems, either in the criminal justice area, housing or anything. I think we play a role in that we can take private moneys and meet some of the needs in some ways. We try to set them up so that, if at all possible, they are the kinds of quality services that might be looked at or replicated.

We can only meet so many needs. We have a marketing plan, for example, which would suggest that we work with 50,000 people a year. That is about what we do at the present time. Even that is a very small part of the whole human service needs—even in these four areas. We have limited ourselves to four areas of concern where we think we can look at, demonstrate, and provide services. We know our limitations.

Mr. **Downs**. I don't mean to ask a leading question, although I am going to. Do you think it is realistic to believe that the private sector could somehow replace any substantial reductions in Federal spending in these areas in which you operate? By replace, I mean not just make use of private money to do a small part of the job. One of the theories behind some current Federal budget cutting is that the private sector is going to take over the functions now funded with public money. I am asking you whether you think that is a realistic view of the situation.

Mr. **Wilkening**. My personal judgment is "No." Take the private giving sector. Presently it is about 5 percent on foundations and probably 5½ to 6 percent on corporations. All of them together probably don't provide more than $7 billion in funding, and you are decreasing the health and welfare field alone by $40 billion. I don't think they will put all their money in there. I don't think there is any way of doing that. I do think, though, that the private sector, as an organization, can probably take over some public functions and handle them as efficiently or as effectively.

However, you should know that I am quite a supporter of many public organizations. We work with them rather closely in Wilder. In my judgment, many, many publicly operated groups do very, very well with the staffing and the funds they have available. I am not so sure many private sectors could take them over and be much more efficient or effective. Maybe they could, but not in all the given situations that we see.

Mr. **Downs**. Yesterday we made a distinction between public provision through public funding of activities and public production. I am now referring to the provision question. If the public sector cuts back on the funds made available to provide many services, whether it provides them itself, or funds provision by others, it seems to me highly unrealistic to expect the private sector to come up with the funding to do that providing.

Mr. **Wilkening**. It won't do it, or it won't do it very quickly. It may do it over a period of years.

There is another assumption in that discussion. It must be that some of these services are not needed, or we are overdoing certain kinds of things, thus they could be cut back. That might or might not be true. Time will tell.

Mr. Downs. I have one more question.

When I was on the board of directors of Hull House in Chicago, I was always struck by the tremendous labor intensity of the care that had to go into delinquents, or criminals, or addicts who had missed such care as children, or who had been in an adverse environment. It took an enormous amount of effort in terms of man-hours and woman-hours in counseling and dealing with them. That effort could conceivably be provided, to some extent, by volunteers.

Do you agree that it takes a large effort? Do you think volunteers can serve on a no-funding basis to do that sort of thing?

Mr. Wilkening. It certainly takes an intense effort. Since we are a stretcher-bearer society, it really takes tremendous effort. We don't fund preventive things.

We have about 900 active volunteers in the Foundation. We think we can relate one staff person in relation to 200 to 300 volunteers. We think we can develop a network in a small community, of areas between 20 and 30 blocks, where with little funding we can do a rather good job of keeping people in their own homes and providing them with the necessary help. It is called "care giver support." We would rather do this than mount a formal effort where we either staffed it ourselves, or put a lot of money into it or into the present network.

I think you can do that to a limited degree. There are some limitations to that, however. It takes a good deal of community organization and a good deal of community wants or desires to get that job done. I think you can find unique cases, unique areas, where this is done very well. We have heard about some of those today. I am not so sure that they are always replicable to other areas. It depends on the subculture, the density of the population, and those kinds of things.

Mr. Downs. Thank you.

Senator Durenberger. Mel?

Mr. Gray. One thing that you are doing which is not displacing the public sector and which I think could operate as an example to public and private sectors alike—and I want to compliment you on it—is to develop an evaluation capability and, more specifically the one you mentioned, the cost effectiveness of reduction of recidivism among young people. This is something I suspect could use much greater publicity than it currently receives. That is just an observation.

Here is my question, if you can respond to it. Most private firms have a pretty clear idea of what criteria they will use to move into various product lines. You have a number of service areas. I am curious about what kinds of objective criteria you might use to decide how much of your resources you will devote to assisting the elderly, to combating delinquency, to providing housing, and so on?

Mr. Wilkening. We don't have good criteria, No. 1. One of the reasons we put in a program development office and are now spending $300,000 or $400,000 a year is an attempt to develop both a needs assessment in the areas we are working, and also an evaluation of the present programs.

We have just completed a needs assessment in the area of the elderly—an area in which we work. That assessment will help us determine why we should be in it, to what degree, and where our points of entry are. We are presently doing a needs assessment of young adults with the same thought in mind. Most of the juvenile programs we are working with are either the 14- through 18-year-old or the 18- through 35-year-old age groups.

We are going to go down the line and do one in each area.

We find to our dismay, in a community such as St. Paul, that people quite often go into things on the basis of emotion, not criteria. There is no doubt that there is a felt need. Maybe that is as good as a study. I don't know either way.

The needs assessment we just completed gives us an altered picture. The age cohorts, for example, whom we were working with were 60 to 65 years old. We find that it is really the 75-plus group for whom we should be providing transportation and having concerns about outreach services for keeping them in their own homes.

That is the kind of thing I think on which the criteria will be built. Presently, we do it like everybody else does. It is a perceived or known need and we respond to that.

Senator DURENBERGER. I have two questions, Leonard. I ask that you address one of them after you get home and provide an answer for the subcommittee later. That is, you are in an area like services to elderly and services to children. I would like you to deal with the whole issue of consumer choice and competition in these two areas.

Correction services is certainly an area in which I don't see much competition or consumer choice. We were told yesterday that that is the essence of getting to alternative delivery systems in this country. We have to equip the consumers—the people with the needs—with the resources to go out, shop among a variety of providers and make some choices, particularly as we look at all the changes that have to take place in this country for long-term care for the elderly. I would appreciate if you would put, for the record, some of the things you are doing into the context of provider competition and the ability of consumers to make choices.

The question I would like you to answer today would require putting on the hat of a mayor. For example, currently in our system the mayor is the funnel through which public funds go in order to respond to certain of these needs. That is not necessarily the case in all States, but in a lot of areas it is true of services to the elderly, housing, and some of these things. How does a mayor who has these responsibilities, while working with a city council and so forth, meet the needs of a variety of people who fall into the category of elderly, low-income housing, and so forth? When they are faced with investment decisions for those public moneys, particularly capital investments, how do they factor in the Wilder Foundation and some of these other things about which we heard this morning?

I imagine George Latimer, who will be here tomorrow, will talk a little bit about negotiated investment strategy where, at least, he can bargain with the Federal Government. How would you, if you were a mayor, do long-range planning for major investments in some of these facilities? How would you make these public money decisions up against the other opportunities you might have in the community?

Mr. Wilkening. If I was a mayor, I don't think I could do it, besides by golly and by guess. I do not think one of the real lacks in most metropolitan areas—and I don't know how you would do this on the long range—is really related to making assessments. I think our approach to needs assessment is an answer in that we need to have a continued needs assessment in those areas which appear to be critical. We need to know who is in the field, how they are in the field, the amount of money being spent in the field, and where a mayor—whoever it is—can put their resources.

My judgment is that most public and private agencies and people involved in providing services have a very difficult time coming up with the real facts and what the depth or implication of those facts are. For example, in a community like St. Paul where there are several planning entities, if you could get them to talk to each other long enough to sit down and work it through, I think you could provide that information on a quick basis with present technologies.

We can provide you with almost any information on the Wilder Foundation—client information, the types and kinds of problems being served, and what we think are the outcomes of those problems. This, at least, gives the board something to act on; however, we don't know the total picture in the community.

Senator Durenberger. Anyone else have any questions?

Mr. Cisneros. Obviously, sir, what you do is well done. You deliver a good product. However, as was indicated, it is not likely to be a substitute for what government has to do, simply because what you do is small in comparison to the volume of what is out there.

We talked this morning about the concept of critical balance. It is good for things that you are doing to go on, because they balance what government is doing. One could envision several reasons why that is good. One, you take part of the load, thus you obviously lessen what the government has to spend. You set up a kind of entrepreneurial approach. It is a good comparison and can be used to stimulate government activities. A third possibility is that you are developing models which have to do with output criteria, et cetera, which the government can use for its effort. So, for all of these reasons what you do is good.

Recognizing that 80 percent of the load didn't need to be carried by the government, if one wanted to make the large government institutions more like you—more like what you do—what would be the critical variable that would need to be addressed to do so? I know that is a hard question, but probably it really is what we need to be discussing.

We have all agreed that we are not going to be able to set up all kinds of Wilder Foundations all over the country. If they don't exist in a place, they just don't exist. Yours is a private foundation and St. Paul is very fortunate to have you. However, other cities that don't have them, don't have that choice.

Mr. Wilkening. I think you have to determine, in order of importance, what the core services are at some levels. We never start anything without the involvement of the community. We think the judgment of the community is as good as the judgment of a study. We would never build housing unless the community wanted the housing. We wouldn't start a program in a given area unless the community wanted the program. So, if I were you, or if I were the mayor—and I could never be a mayor—I guess I would determine what the core services were. I would build it on community response.

Second, my judgment on the third part of that is staffing. I think we make good use of volunteers. I think we look for people with skills, however acquired. We do look for pretty top-notch people, or the best we can find, at least in the area. We are pretty tough managers. We try to really lay out the purpose, goals, and objectives—5-year objectives so we know where we are going and how we are going to get there—and we stick to it. We work rather hard in the training aspect of it so that we do make it.

My judgment from watching cities is that—and I don't know how you get around the politics—it is very difficult to manage an objective which is going to apply over a long period of years. Things change. It is sometimes difficult to attract key personnel and hold them, or to have the flexibility to change people as needed to meet key problems.

I think the other thing is the time—and God knows we have a mayor, George Latimer, who can do this for some reason or another—needed to get the coalition of resources necessary to get the job done. I think that process probably goes in peaks and valleys over a long period of years. Somebody works like mad and gets it to this point. Somebody pushes it over the top, and it goes down again. Watching it over a period of years, it goes in peaks and valleys. I don't know who gets credit for that, but it comes out that way. The key is to decide what is the mission or purpose of the city, then to develop the core services and staff it properly.

Mr. **Cisneros**. Is part of your success due to the fact that you are small?

Mr. **Wilkening**. Yes; I think it is because we are both small and specialized, if you will. We are specialized in that we don't try to outrun our administrative capability.

Senator **Durenberger**. You could do me a favor and think about that question a little more. It does get to the heart of what we have been dealing with. Don't be in a hurry to get the response back to us because your response was good. However, knowing you, I think you could make it better. As the mayor pointed out, it does go to the heart of what we are discussing.

Thank you very much, Leonard.

[The prepared statement of Mr. Wilkening follows:]

PREPARED STATEMENT OF LEONARD H. WILKENING, PRESIDENT, AMHERST H. WILDER FOUNDATION, ST. PAUL, MINN.

AMHERST H. WILDER FOUNDATION

A word or two about the Amherst H. Wilder Foundation is in order. The Wilder Foundation, in contrast to most foundations, is a private operating foundation. All of the programs funded by the Foundation are operated by the Foundation. It seldom makes grants of money.

It is one of the oldest and largest operating foundations in the United States devoted exclusively to providing direct health and welfare services.

The Foundation was incorporated in December, 1910 as the Amherst H. Wilder Charity. In 1953 the name of the corporation was changed to the Amherst H. Wilder Foundation.

The purpose of the Amherst H. Wilder Foundation since its inception has been to promote and aid the social welfare of the poor, sick, disadvantaged and needy persons, resident or located in the Greater St. Paul Metropolitan area, by all appropriate means through the operation, support and promotion of activities designed to meet the individual's need for income security, health, housing, knowledge and skills, safety, and social functioning in cooperation with other public and private health and welfare organizations.

At the time the Foundation was incorporated in 1910, the market value of the combined Wilder family endowment was $2,602,000. On June 30, 1980, the market value of the Wilder endowment was $81,044,000. In addition, the Foundation owns 23 major buildings with a book value of $20,081,000.

Total disbursements for the first fiscal year ending June 30, 1912 were $79,000. By comparison, the total Foundation program expense for the fiscal year 1979-80 was $13,739,000. This funded 33 human service programs, helped 28,000 persons, employed 850 persons with an annual payroll of $7,134,000, and paid federal, state and local taxes in the amount of $544,000. The 1981-82 fiscal budget is $21,000,000.

Since the first expenditure in 1906, the Foundation has spent more than $66,000,000 of the endowment income in carrying out its mission.

HISTORICAL EMPHASIS

The Foundation is a responding organization. For the past 70 years the Foundation has responded to the changing health and welfare needs of persons living in the St. Paul area. For a period of 40 years, it provided direct relief to persons in the St. Paul area and the relief program was the forerunner of the County Welfare Department. For a period of approximately 40 years, it also operated a nursing service, which ultimately became the Ramsey County Nursing Service. Other firsts that were a direct response to the needs of the times include: daycare (1912 to present), dental services, a central registration bureau, a school lunch program, social work libraries, research, health centers, a Wilder dispensary (1923 to 1961) that provided medical and dental services to the indigent poor before emergency-outpatient services were available in hospitals, the first child guidance clinic (1924 to present) for children with emotional and psychiatric problems, and residences for the elderly (1961 to present) that include a continuum of care, from independent living to skilled nursing care. Many services that were started were planned in cooperation with other public and private agencies, including the United Way, county welfare departments, the State of Minnesota, and the United States government.

Since 1970, the Foundation has placed its major emphasis in four human need areas:

1) Services to Elderly - An integrated and full spectrum of community-based and residential services to chronically impaired elderly persons and leisure, educational, recreational, cultural and employment programs to the relatively well elderly. 1979-80 operating expense was $7,236,000.

2) Housing Services - Provision of housing for low, moderate and middle income adults and families in the metropolitan St. Paul area, and the provision of education, training and consultation to persons and organizations that impact on housing. 1979-80 operating expense was $600,000.

3) Corrections Services - Community-based programs for male adult felons and natural environment programs for delinquent boys and girls. 1979-80 operating expense was $1,164,000.

4) Services to Children - Direct outpatient and residential mental health services for children and their families. 1979-80 operating expense was $2,908,000.

Another special emphasis of the Foundation is planning and development. This program provides a broad spectrum of technical assistance to Wilder staff and management, as well as to the general public, in order to improve planning for new service programs and to continually adjust existing programs to better meet changing community needs. 1979-80 operating expense was $429,000.

These are the present major divisions of the Foundation.

FOUNDATION ALTERNATIVE SERVICE DELIVERY

The Foundation is presently experimenting with and operating several programs that are alternatives to present federal, state and county governments providing services. These programs are demonstration models, based on research and study of community needs, include an evaluation component, where possible are in cooperation with other public and private agencies, and are time limited.

Residential Community Treatment Program

The Foundation program known as Bremer House was started in 1972 in cooperation with the courts and the probation departments. Its purpose is to provide a community alternative for male felons and gross misdemeanants who would otherwise be imprisoned in adult correction institutions. It is a highly structured residential program consisting of supervised living, group interaction and counseling sessions.

The program serves selected male felons and gross misdemeanants between 18 and 30 years of age from the metropolitan St.Paul area who are placed in the program by district court order as a condition of probation. A total of 20 residents can be accommodated at any one time. It is a group-oriented program in which increased freedom and privileges are earned by the residents as they demonstrate their ability to handle increased responsibility. With the help of staff, residents are assisted in looking at their own problems realistically in an effort to develop mature, law-abiding attitudes and behavior patterns. Each resident is required to participate in four behavior therapy groups per week; in addition, chemical dependency groups are available three times a week.

Since its inception this program has served approximately 170 men. It was set up as a demonstration project. It has been evaluated against a similar group from St. Cloud Reformatory. The program does reduce recidivism, is much less expensive than a state facility and could be duplicated in this area or any area. A complete analysis of the program is available.

Residential Program for Delinquent Boys and Girls

This program, like Bremer House, was developed with the purpose of effecting a positive change in the attitude and behavior of delinquent boys and girls by removing them from their natural environment and placing them in a wilderness oriented, short-term (approximately 3 months) structured program setting. These two camps serve boys and girls, 13-17 years of age, who are referred from the juvenile courts of the four counties in the metropolitan St. Paul area. Maximum capacity is 30 youth at one camp and 40 youth at the other camp. In any given year, approximately 250 youth are involved in the camp programs. The program is highly structured, with six hours of traditional classroom education, two hours of work experience in the late afternoon, and structured evening activities. The last three weeks are a high-adventure experience which has been an integral part of the program since its inception. The program places emphasis on outdoor, year-round activities designed to build confidence and self-reliance in boys and girls. The challenge training program includes canoeing, hiking, cross-country skiing, and mountain climbing in the Upper Peninsula in Michigan, Northern Ontario, and The Tetons.

These programs were developed as an alternative to sending delinquent youth to traditional corrections facilities. The programs have not been operational long enough to completely evaluate results. It would appear that through a positive change in attitude and behavior these programs meet youth needs that cannot be met in standard correctional facilities, are less expensive, and would appear to be as effective or more effective than existing services in developing positive changes in attitudes and behavior. Evaluation will be completed in one year.

The key elements in developing the above two corrections programs were:

1) cooperation between the staff of the Foundation, the courts and probation departments in the four-county area;

2) employment of experienced staff;

3) design of the programs so they could be measured within a five-year period of time; and

4) joint funding by the Foundation and the county.

The residential community corrections program for adult male felons, known as Bremer House, although it has proved that this is an effective means of meeting needs of young adult male felons, is not and probably never will be politically popular. There is an obvious political problem inherent in placing adult male felons in an open community, residential facility. Even though it is less costly, the second and constant obstacle is to secure adequate funding through or from the county. It would appear the answer to funding is to secure a long-term (five-year) commitment from the courts and county commissioners prior to opening these kinds of programs. This could possibly be done through legislation.

Housing

In the last seven years the Foundation has built 700 housing units for low and moderate income individuals and families. This has been done at the request of neighborhood residents and the City of St. Paul to meet a studied, known housing shortage in the St. Paul area.

The first development of 300 units was a low and moderate income development for individuals and families and included both rental and cooperative-owned housing. The rental housing is owned by the Foundation and the cooperative housing--167 units--is owned by the residents and governed by an elected board of directors, who interpret the concerns, needs, and ideas of the residents in an effort to achieve a well-managed, safe, secure and pleasant place in which to live. It is 100% occupied and has an annual turnover of 11%. It is an excellent example of cooperation between the neighborhood, the city and the federal government. The rental units have a 20% Section 8 subsidy.

The Foundation also recently built a 120-unit apartment building that was completed in November, 1980. The building is designed for elderly and handicapped persons who are no longer able to maintain single-family homes, but are able to live independently. The construction was financed through federal 202 funds and Foundation capital. This development has 100% Section 8 subsidy. Both of these developments are effective in meeting the needs of low-income persons. They are highly accessible and are an alternative to the federal government developing housing for the elderly.

A unique, creative Wilder response to St. Paul housing crisis is a 283-unit condominium development known as Wilder Park. It is an entirely new housing development, consisting of a 231-unit apartment tower and 52 townhouses. It was designed for low, moderate and middle income persons, especially those who are elderly.

The unique feature in this condominium development is that:

1) it was funded with tax-exempt industrial bonds with the Foundation securing the bonds with a program-related investment of Foundation capital. The net result was a low interest rate because of the AA rating of the bonds and, at that time in 1978, at 6-1/3%;

2) twenty-five percent of the 283 condominium units are being sold to low and moderate income persons at less than market prices;

3) it is an alternative to Section 8 housing.

The subsidy to low income persons is done as follows:

1) A percent of the normal profit that would be taken out by a for-profit corporation is allocated back to the total cost of the project;

2) These funds are placed in a pool;

3) The funds are divided by the number of units subsidized (in this instance, approximately 70 units);

4) This makes the average subsidy available.

It is important in developing this subsidy concept that four market rate units be sold for every subsidized unit in order to have the necessary cash flow. Two other important aspects of this project for low income persons is that the association fee for the condominiums is based on the selling price of the unit and a deed restriction must be secured from the appropriate government unit so that taxes are based on the actual sales price. The net result is that low income persons or families can move into and own good housing property and are able to afford the modest payments.

The specific objectives behind the Foundation's involvement in this development were:

1) to stabilize the neighborhood by stopping the out-migration of persons living in the area;

2) to increase housing stock available by providing substitute housing for a number of older persons, thereby making residences available for younger families in need of larger homes; and

3) to increase the tax base.

The key elements in developing Wilder Park and the other housing programs of the Foundation were:

1) complete cooperation of neighborhood residents in the design, development and marketing of the housing;

2) the employment of competent staff who were able to work with neighborhoods, the city and other governmental agencies and staff with the capability of designing, constructing and marketing housing; and

3) the cooperation and understanding of the for-profit real estate community.

The primary obstacle to the Foundation in developing housing is its 501(c) (3) status. Prior clearance with the Internal Revenue Service is necessary to make sure that what the Foundation is doing is in line with the Tax Reform Act of 1969.

The Foundation, in the near future, intends to build 950 units of housing in a development known as Energy Park. This is a joint venture between the City of St. Paul, St. Paul Port Authority, Control Data Corporation, the Wilder Foundation and the United States government.

St. Paul Energy Park consists of a two hundred fifty-five (255) acre underutilized site located midway between the central business districts of Minneapolis and St. Paul.

One hundred twenty (120) acres of the property are now owned by the City of St. Paul and the Port Authority of the City of St. Paul. This acreage includes property subject to a purchase agreement with the Koppers Coke Company (a forty-acre parcel containing a coke plant closed by the United States Environmental Protection Agency for failure to meet pollution standards) as well as property which houses the Midway Stadium, a small, deteriorating, open-air stadium used on a sporadic basis plus surrounding parking and vacant acreage totaling approximately sixty-five (65) acres. The balance is owned by the Burlington Northern Railroad (130 acres).

Generating minimal employment, minimal tax revenues and little or no investment, the site covers an expanse of prime inner city land which, as a result of negotiations begun in August of 1979 between the City, the Port Authority, various federal and state governmental agencies and the private owners of the property, is currently available for conversion by the City and Port Authority into a major productive complex. The availability of this land in an unused or underutilized state within the central city provides a unique opportunity to improve the quality of life of not only the neighborhood abutting the site but throughout the City of Saint Paul and the entire metropolitan region.

Accordingly, the basic thrust of the St. Paul Energy Park project is to transform the available underutilized public and private property into a residential, business and industrial community designed as a national model for energy efficient urban neighborhoods combining a high quality living environment with a supportive employment and social service structure.

It is proposed that Energy Park contain a variety of components:

1) Residential development of a minimum of 950 units containing both rental and owner-occupied dwelling for low, moderate, and middle income level individuals and families. This development will be located on a 48-acre site by the Foundation.

2) A 155-acre development containing office, light industrial, and research and development facilities.

3) A 300-foot strip of land reserved exclusively for office development.

4) Recreational facilities.

The area is not presently served with utilities and the development must incorporate storm sewers, sanitary sewers, and water and gas mains, as well as an energy distribution system.

The projected energy concept includes a central energy source, various methods of energy conservation (including earth sheltered, underground, and use of both active and passive solar systems). An energy distribution and management system will be created for the entire Park.

St. Paul Energy Park will create an inventory of much needed industrial and residential land in the heart of the Twin Cities and will provide 188 net usable acres. The project will be phased over a five-year period, with Phase I construction to begin in the fall of 1980 through the fall of 1982; Phase II, fall of 1982 through fall of 1984; and Phase III, fall of 1984 through fall of 1985.

Elderly

The Foundation for many years has provided skilled nursing care for the elderly and presently operates a 147 bed skilled-care nursing home, an intermediate I nursing care facility for 43 persons, and 102 units of intermediate II nursing care at another facility.

The Foundation has recently begun to develop a comprehensive, integrated, health and social service approach to primarily elderly persons living in the metropolitan St. Paul area. This approach includes a full spectrum of community-based services to chronically impaired elderly persons. The focus of these initiatives is to strengthen existing natural supports of older people. Three areas in particular are of primary concern: older people themselves, family members of disabled adults, and neighborhoods in which older people choose to live. The Foundation believes that there must be an alternative to having persons move into institutional settings. With the increasing elderly population and the ability of the elderly to take care of themselves longer, natural support systems must be enhanced. The Foundation presently has three alternative programs in operation.

One program is a mutual support group program. Its purpose is to develop mutual support groups for older persons experiencing acute and chronic stress associated with major life transitions or demanding life situations. The primary effort in the first year of the program will center on developing groups within several Wilder programs serving a broad range of older persons in the St. Paul area. Staff members will be trained to develop and facilitate groups within their work settings, utilizing older clients in the planning and implementation process. Staff members and eventually older persons will be trained to give leadership to these groups. Efforts will also be made to help staff and older clients understand the normalcy of emotional stress related to multiple loss, the need for support, the role of support groups, and the process referral-to group. Program evaluation will focus on the utilization of the support groups, the impact of participation and the role of staff and peer facilitators.

Another important initiative is called a caregivers support program. The purpose of this program is to support family caregivers who wish to care for chronically ill or handicapped elderly, many of whom would otherwise require placement in a nursing home, through a combination support group, educational sessions, and respite care services. Caregivers may be a relative, friend or neighbor of an elderly person. The elderly person may live with the caregiver, reside independently or be institutionalized. Through the program, support groups of caregivers have been organized in various parts of the St. Paul area, meeting weekly to offer a variety of support and education services. Neighborhood-based with community involvement, these groups offer caregivers the opportunity to share feelings and experiences with persons in similar situations and get information they require and find useful in their multi-task role. The program also makes available persons to relieve the caregiver to attend group sessions. Transportation services can also be arranged through the Foundation.

Another new initiative that will help in terms of providing alternatives to institutions is a senior information service that is designed to provide the isolated or potentially isolated elderly, neighborhood resident opportunities for community involvement through the use of natural helping networks in neighborhood environments. The primary function of the senior information service is to strengthen neighborhood natural helping networks in order to help older persons maintain independence and a sense of well being. The project coordinator works with older neighborhood residents, to reach the isolated or potentially isolated elderly. The first target neighborhood is a 25-block area within a district of the city. An 8-member planning committee composed of neighborhood leaders works closely with the project coordinator to locate these residents, prints a monthly neighborhood newsletter that gives the neighborhood a network for written communication and develops a system of block workers to hand deliver this information. This is an attempt to develop a neighborhood network that would help people stay in their own homes in a relatively well way.

Another program that has been in operation for some years is adult day care. This is the best example of an alternative way to efficiently use federal Medicaid funds. The purpose of this program is to provide community-based, non-residential care, including health and social services for disabled adults who have physical or mental disabilities extensive enough to make it difficult for them to remain in their own homes without outside assistance. The program is geared to the needs of those who are recovering from a stroke or surgery and need restorative care, those who are chronically ill and have problems with activities of daily living,and those who may need help dealing with the health of personal crisis. This past year this program involved 160 persons.

It is the belief of the Foundation that many older persons prefer to remain in their own homes. This preference, along with the rising cost of institutional care,has prompted the Foundation to develop an emphasis in which its long-term care facilities are viewed as a necessary but secondary alternative to the care and maintenance of individuals in their own homes. Thus adult day care has emerged as one of the major approaches for helping adults recover from a disabling condition and/or maintain a meaningful life in spite of their disabilities through a combination of rehabilitative and group support services. It is also seen as and can be used as respite service for families who care for frail elderly persons without requiring a 24-hour day, 7-day week commitment. Family members are able to go to work or pursue their personal interests knowing that their elderly family member is well cared for and not alone. The cost of this service is approximately $30 per person per day. Persons involved attend the day care program three days a week and therefore the total cost is approximately $100. Nursing home care presently averages $55 to $60 a day, or $400 per week. This form of elderly day care is less expensive and possibly an effective way of helping to keep persons in their own homes. The obstacle to continuing the program and making it meaningful for a large part of the population is a strong financial base. The Foundation believes this program deserves careful analysis and study and is an alternative to nursing care for many older persons.

Leonard H. Wilkening, President
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Senator DURENBERGER. Fire protection is one of the most costly services our communities provide. Our next witness, Louis Witzeman, was the founder and, for many years, the sole owner of the Rural/Metro Fire Department of Scottsdale, Ariz. He is now retiring to become chairman of the board.

This is certainly an unusual business for a private company. Mr. Witzeman is here and we are going to be very interested in hearing his story. I will have to excuse myself for a vote. Also I would like to inform you that some time very soon our new friend, the mayor, will have to excuse himself in order to catch an airplane.

Henry, I want to tell you how much we enjoyed your participation here today and look forward to more of your contributions in the future.

Mr. CISNEROS. Thank you very much, Senator. I am appreciative to you for allowing me to participate. Just speaking as a mayor of a city, these are very, very important questions. There is not a city in the country that isn't facing a combination of its own budget cutbacks as a result of inflation and the local climate which says no more property taxes, and in combination with the cutbacks in the Federal programs.

We are working madly to find solutions along the lines you have suggested. I just want to commend you for recognizing the problem and putting this forum together.

Senator DURENBERGER. Thank you very much.

Mr. Witzeman, it is a pleasure to have you here. Why don't you begin? Mel will be the Chair until I return. I will be back as quickly as I can. Thank you for being here.

TESTIMONY OF LOUIS A. WITZEMAN, CHAIRMAN OF THE BOARD, SCOTTSDALE RURAL/METRO FIRE DEPARTMENT, SCOTTSDALE, ARIZ.

Mr. WITZEMAN. Thank you.

Thirty-three years ago, Rural/Metro Fire Department went into the business of providing fire service—then and now one of the most generally accepted functions of government and the tax dollar in the eyes of the public. I am not here today to tell war stories about how we started or some of the problems we had. However, there are a few things I should tell you about where we are today, what we have accomplished and what might be done to encourage the spread of the best of what we have accomplished.

Starting with one station and one truck in 1948, we have grown continuously. Today we serve areas of Arizona and Tennessee from some 42 fire stations staffed by approximately 600 full-time and part-time employees. We operate a fleet of some 140 vehicles and provide not only fire protection in all its aspects—suppression, prevention, emergency medical services, communications, and so forth—but also ambulance and security service.

Further, since initiating a consultation service 18 months ago we have provided consultation in 14 States and Provinces in Canada. We serve Arizona communities—including Scottsdale, a city of 95,000 persons; Sun City and its sister community Sun City West; the town of Paradise Valley; Youngstown, and others. Approximately half of our annual revenues are received from cities such as these and from fire districts, with which we contract through their top governmental authorities, and the other half of our income is delivered through door-to-door sales of subscription agreements to individual property owners we serve.

Our objective and the reason for our growth can be most simply stated as the cost-effective provision of emergency services, with equal emphasis on both aspects of that magic phrase "cost-effectiveness." As our goal has been the provision of cost-effective fire protection service, our method of achieving it has been to analyze every function of that service as a businessman or analytical student must, and to separate the aspects that contribute to the service from those which do not. Please understand that this analysis is at the very core of our survival. Our employers don't hire us just to do the same job at the same cost in the same way the government departments in general do the job. They hire us to do it a little better for a little less. We would not be here today if we did the same job that everyone else does. In the best spirit of American tradition, we were forced from the beginning to do things better. We had to do something the government monopoly generally didn't do—we had to compete to survive. We had to meet the test of the marketplace.

A representative example of, and an easy one to understand, what we found at first might be the big, beautiful custom-made firetrucks so common when we began providing service. In some cases they were blessed with 13 coats of hand-rubbed paint and $6,000 worth of chrome—neither are very pertinent to their function of applying water to a fire, and both are a major expense to the taxpayers. As one consequence of this, we began building many of our own firetrucks.

More important, brute economics forced us to examine the role of firefighters in suppression. This led us to the conclusion that the most cost-effective manning method—and again with equal emphasis on both aspects of that phrase—was to use a mix of career, full-time and on-call personnel paid for training and response.

Now, please note I am talking about what we call the real world of firefighting. I am not talking about Brownsville, N.Y.; Washington, D.C.; Chicago; Cleveland; or similar communities. I am talking about small- and medium-sized cities in which the fire problem is vastly different. I am talking about the heartland of our country, the real world of firefighting.

There are many other ways in which we achieve results in our never-ending quest for cost-effectiveness at Rural/Metro. We not only build much of our own equipment but we build much of it to our own special and different designs in our own shops. We have pumpers that incorporate dropoff pumps and other features to perform most of the work of two pumpers with one vehicle. We have a remote-controlled, tracked vehicle which can pull hose and apply water at a 500-gallon-per-minute rate at distances which makes the firefighting task safer and utilizes less manpower.

Years ago, we researched automatic fire suppression sprinklers and evolved one of the Nation's pioneer sprinkler ordinances—a provision for the sprinklering of large structures which not only pays for itself in insurance savings but radically reduces the future cost of fire protection as such systems are installed in a community. By keeping a very close eye on the state-of-the-art of fire suppression, not only in this country but throughout the world, we learned of and helped pioneer such things as large diameter hose, quarter-turn couplings and other tools of effectiveness. We searched the shelves of the marketplace for devices used in other technologies but applicable to the fire service. Widely hailed as innovators, we might far more correctly be termed synthesizers. We do all these things because we must compete.

Examining the results of this competition for a moment, let us look at the city of Scottsdale. For more than 25 years we at Rural/Metro have had the privilege of serving this community. Its homeowners pay the same fire insurance rates as its neighboring communities. Its fire losses are somewhat lower. It has a complete range of services including suppression of fires, a very active fire prevention program, and an efficient emergency medical response system. However, its costs are about one-half the national average.

Do you have any idea what this means for the quality of living in this lovely community? With fire service costs of approximately $17 per capita, compared to a national average of more than double this for communities of comparable size, the city is saving its 95,000 residents about $1.5 million a year. Do you need to be told what we can do with $1.5 million a year in Scottsdale? With these savings and those produced by other management skills of the community's enlightened leaders, we can build one of the Nation's outstanding parks systems, libraries, and streets. We can provide services to make up that wonderful, undefinable thing we all agree is quality of living.

We buck terrible odds, of course, in the provision of this established government monopoly service. We grow in spite of it. We grow while we pay thousands of dollars in vehicle license fees, taxes, and other costs our governmental associates don't have to pay. Others, too, are starting to get into this service at the private operations level. They, too, are growing.

What we really must defy—and you, our national legislators, must be aware of and help overcome it—is simply an attitude that "it can't be done" because it hasn't been in the past. What? A private fire department? A private police department? A private jail? Well, they all exist. "Creeping capitalism," as I believe Newsweek magazine called it, is nonetheless a trend in our country. We should all be grateful for it. Business is getting into the performance of everything from computer service, streets and highway maintenance, to jail operations.

This can be a very cost-effective speech. It is going to be a 12½-minute speech in 10 minutes.

If you and I can do anything to help in the spread of these types of private services which have contributed most in normally governmental fields in the past 5 or 10 years, it is to deal with, above all, this attitudinal problem. We don't fit into anybody's rule book at Rural/Metro and we pay a never-ending penalty for this. A country that was built by, and prided itself on, its individualists and their successful, maverick ways of getting things done almost became a country that didn't give you breathing space unless there was a category for you on its governmental computers. Our minds reacted the same way—we distrusted the new and the different.

If there is a tribute to be paid to the people who organized this hearing, it lies in the fact that they had the courage to examine what our stilted thinking has almost done to us. They have called a public meeting in which some of the mavericks could stand up and say: "Look: We live; we breathe; we do it differently, but it works. Let us prove it."

In the private provision of fire service, in addition to bucking tradition, we must fight the Motherhood issue—big, red firetrucks plated with chrome wherever there is room for it are as much a part of our upbringing as "Mom and Apple Pie." I don't know how you fight with your mother, but I fight with mine very carefully, and as seldom as possible.

It has been said, and it could be true, that Rural/Metro could only have been "born and raised," if you will, in a State like Arizona—a State with a cosmopolitan population assembled from throughout the Nation, a melding of ideas and personalities from throughout the land assembled in an area still blessed with some of the individualism of the Old West. Perhaps only here, could we have been incubated. After all, this is "Goldwater Country." The people we work for—the city councils, mayors, managers, fire district directors—must have the courage, just as we must, to do things differently and defy tradition. Our electorate must understand and be attuned to the benefits which may accrue from a defiance of tradition. If the same things are to be created, permitted or encouraged by the Federal Government, our Federal leaders must have the same attitude.

If you had asked me here a year ago, I would have responded to any question about what the Federal Government could do to encourage the competitive provision of services generally in the public sector by just saying, "Get off my back; leave me alone; quit mailing me forms to fill out; and I'll do my job very well, thank you." Frankly, I will say the same things today, but with one magnificent, hopeful comment: "There are lots of good signs."

If cost effectiveness in government is to be improved by, among other things, encouraging free enterprise to do its thing, your task and mine lies first at an attitudinal level. We must encourage defiance of tradition, the will to make things change. The Federal Government's task is to wade through an unending morass of regulations and policies which impedes progress or attempts to reinvent the wheel, and to take it from there.

I have delivered 75 percent of my talk. I assume you can read the rest. I would like to say one thing and that is just my final line and that is I have learned one thing. I am retiring now. I have sold my department to 600 employees. They will now have the opportunity to confound the establishment as a department, not only privately owned but owned by 600 firemen, drivers, what have you. I learned one thing that counts: Man is a very competitive animal, and most productive when he competes. Anything you and I can do to help him be competitive is a wonderful, wonderful thing.

Mr. GRAY [presiding]. I want to assure you all that your full statements will be included in the record. Why don't we start with Mr. Downs?

Mr. DOWNS. I gather that your feeling about competition is more on the provision of the service than the funding of the service, or am I wrong?

Mr. WITZEMAN. Did you say provision rather than running?

Mr. DOWNS. Funding. Do most of your funds come from the public sector?

Mr. **Witzeman**. We contract with governmental agencies that would otherwise do it themselves; however, we do it for less. That is our bag.

Mr. **Downs**. You are talking about the economies and the competition in the provision of this service, not in the funding of it?

Mr. **Witzeman**. Correct. In some areas we also, in effect, do our own funding by selling, literally, subscriptions—door to door, if you will—for the fire service in areas that have no governmental overriding agency that provides the service.

Mr. **Downs**. In a community like Scottsdale, which is a fairly high-income community, do you think it would be possible to finance the whole thing in the private sector?

Mr. **Witzeman**. You mean doing it without receiving funding from the city government?

Mr. **Downs**. Right.

Mr. **Witzeman**. I don't think it would be socially acceptable, and I don't think it should be.

Mr. **Downs**. You think public funding is an essential ingredient?

Mr. **Witzeman**. Yes; I think it is our job to do it. What we provide is a method of doing it for less.

Mr. **Downs**. One of the things that has been said about newly emerging competition with the telephone company—this is said by the telephone company, incidentally—is that the competitors tend to skim off those services which are self-supporting and which provide the highest profits. An example is telephoning long distance. But they leave to the original monopolist the most difficult and most cost ineffective services, which in the case of phone companies is rural service. Could one say you are "skimming off" the easiest communities to serve? You have identified the fact that you operate in relatively middle-size and small communities where the fire problems are not really of the same type, as you mentioned, as in Cleveland, Chicago, et cetera.

Do you think your approach would be applicable in these other communities where there are different kinds of fire prevention needs?

Mr. **Witzeman**. Elements of technology that we use are applicable anywhere. Many of them are now being used anywhere. Many of the things we did that were controversial 15 years ago are now very widespread. Our task, and our function by being in the business, has been to provide technology. Most of this technology we have found by reading and just by looking at what was on the shelves. The function that we have performed has been by doing this and by providing competitive techniques to make it possible for some of the bigger cities to do some of the same things.

I am not going to pose as an expert on downtown Detroit. I have no idea what the impact will be there in connection to what we do. I know much of what we find here is being used in many cities.

Mr. **Downs**. You don't see any reason why the basic principle of competitive private provision of this service wouldn't also apply to large cities, or do you?

Mr. **Witzeman**. No; I think the basic principle is simply that everything has to be open to competition. I will accept it up to the U.S. Army for today. Anyway, I think the basic principle is that we have to function competitively. The reason we were able to make a dent in the fire service is because this was a very tradition-ridden, noncompetitive field. You gentlemen, can probably spot some others. I don't happen to know what they are.

Mr. DOWNS. One more question: Do you think there are diseconomies of scale in the firefighting business that might make it more advantageous for large cities to divide themselves into multiple districts and provide service separately in those districts?

Mr. WITZEMAN. You are probably correct. There are some places that would take some spelling out. I am not sure I am 100 percent sold. I don't want a nationwide contract. I don't think the economies of scale would work. Somewhere, between where we are and that there, are diseconomies of scale which are initiated.

In most cases, the fire service is already so fractioned—with five fire chiefs serving an area that ought to have one, five shops and five radio rooms serving what ought to be one—that the economies are just inverse. They are inverse to what they ought to be—in most areas now, not in all. In fact, you have some very good areas right around here in this part of the country.

Mr. DOWNS. I do want to take exception to this concept of competition as applicable to everything for the same reasons as yesterday. Having watched the wedding of Prince Charles and Lady Diana in London this morning, I think it would have been a little less appropriate if there had been three wives taking the vows.

Senator DURENBERGER [presiding]. It will be on the record.

Mr. SCOTT. May I ask you a couple of questions about the service you do provide? Is it possible for the communities, who are contracting with you, to pick and choose among the various levels of service? Or, do they buy one package and one package alone?

Mr. WITZEMAN. No; they pick their own service level, except we do have minimums that we won't go below.

Mr. SCOTT. In your emergency medical services, do you provide transportation to an elderly citizen who lives in Scottsdale and goes to a hospital in Sun City and wants to return home after a gall bladder operation?

Mr. WITZEMAN. In Scottsdale, we do not provide ambulance service. In the areas that we do provide it, the answer would be "yes." Scottsdale has a separate, privately operated ambulance service.

Mr. SCOTT. Privately operated fashion like your service?

Mr. WITZEMAN. It is not a subscription service; but, yes, it is similar—privately owned, privately operated, paramedic manned, three bases of operations.

Mr. SCOTT. For the individuals who subscribe, are they also allowed different levels of service?

Mr. WITZEMAN. Yes, regionally. There are regions in which the service levels vary. We have one area which is still primarily volunteer, backed up by paid men. In the subscription service, the service levels do vary, based on the income of that area and the fire problem existing in that area.

Mr. SCOTT. Are you saying a person with a lower income might pay less for a service?

Mr. WITZEMAN. A person with a lower income, if he was in a lower income area, would probably pay less. The rates, in general, are based on the interior square footage of the property protected. If you were making $10,000 a year and living in a 1,000-square-foot home, you would pay exactly the same price that you would pay if you were making $50,000 a year and living in a 1,000-square-foot home. However, generally, the home sizes follow the income. So, there is a built-in differential there.

Mr. SCOTT. Since this service started 33 years ago, why would you say—and I want to say that your testimony was quite refreshing and very interesting. I have heard about your service before. I was delighted to be able to be here to hear you and to get some first-hand knowledge about how the system actually works. I would like to know why you think a system, which has been operating successfully for 33 years, has not spread beyond its current operation?

Mr. WITZEMAN. In the first place, when you start out in the position of being one private fire department with 29,000 public fire departments, you have to follow a fantastic growth curve to get anywhere. We grow about 17 percent a year. Believe it or not, that is about all we can physically digest.

There are other problems which I addressed, believe it or not, in my talk about Motherhood and about the establishment going through the roof with the mere idea that anything so sacred as a fire service can be privately operated. I might refer you to the fact that fire service at the full-time level is very heavily organized from the union standpoint. Unions do not think we are the greatest thing that ever existed. In fact, they have some rather contrary ideas on the subject. That is a factor, a realistic factor. There is nothing wrong with it. You have a mayor sitting here, somewhere—he has left. He has to face that union if he wants to deal with us. That is one reason why we are getting into consultation service now at a rather rapid rate. That is a way for us to spread the technology without spreading the fight.

Mr. SCOTT. What I was getting at was that you said you started with one truck in 1948?

Mr. WITZEMAN. Right.

Mr. SCOTT. It would be much easier, it seems to me, to start with one truck and provide this service than it would be to go to San Antonio and convert.

Mr. WITZEMAN. That is basically the way we have grown. Most of our growth has been in Arizona. We now serve 20 percent of Arizona's population. We have another service area in Tennessee, but that is it. We are almost coast-to-coast, but there is a rather spectacular gap.

Mr. SCOTT. Thank you.

Mr. GRAY. One quick question: Given the choice between marketing directly to the consumer or contracting with units of government, which do you prefer personally?

Mr. WITZEMAN. I think we can achieve most by working with the government from the standpoint of selling a concept, improving the service, and doing the research and development that we feel this field needs. However, this is a marginal decision because there are some charms to being slightly more independent, perhaps, by working for the general public. I think I prefer working for the government. I like the thought that I can save the government 50 percent by doing a good job and by making things more pleasant for the people for whom I work. To me it is a wonderful thing.

Senator DURENBERGER. I am sorry I missed your presentation. From what I can tell, I really did miss something. I would have loved to have heard it.

I noticed in the Minneapolis newspaper the other day that Dave Stockman has finally gotten around to looking at the Veterans' Administration hospitals and their fire departments. In our case we have had one fire in 42 years up there, but we have this 17-person fire department. Dave Stockman asked, "Why not have the city contract for it?" When somebody asked the city fire chief this question, he replied: "I will be glad to do that but you are only saving $400,000 by cutting out the VA part. It will cost you $500,000 to buy services from us." Somebody said why. The fire chief answered: "Because we will have to build a new building, put in a hook and ladder truck, and will put 17 people back in there.

There is clearly a mentality——

Mr. **Witzeman**. A textbook statement of the problem that exists.

Senator **Durenberger**. It is incredible. I should get the article and put it in the hearing record. Then I should try to never run into the fire chief from Minneapolis when I am running for reelection.

Unless I missed it, that leads me to get a more specific answer to Jim's last question. I tried to get at the same issues with the hospital fellow who was here earlier. What is the market for your services? Did you get into Tennessee by going into a community which didn't have a fire service, so you could come in with your one truck? Or, did you go in and, in effect, take over an existing service?

Mr. **Witzeman**. Tennessee was a fluke situation. We took over what turned out to be—we found another privately operated fire department in that area. In fact, we found three of them and we consolidated them. Each one was rather small, inefficient—no insult to them; they had no choice. We combined them and made it into one operation.

Your question: Do we think we can go into existing services? My answer to that is, it is very, very tough. It hasn't been necessary because we grow as fast as we can without doing this. We are a rather small facet of the fire protection service in this country. We accomplish more by being there, by being competitive and by having some good ideas—perhaps, better than by any other way. I think you missed my statement that, we also grow 17 percent per year, while we started out with one man and one truck. So, you might say that we had a small base—even to get where we are is a fairly spectacular growth pattern.

Senator **Durenberger**. Thank you very much for being with us today.

[The prepared statement of Mr. Witzeman follows:]

Statement of Louis A. Witzeman
Chairman of the Board
Rural/Metro Fire Department, Inc.

To: The United States Senate Inter-governmental Relations
Subcommittee, Forum on Alternatives to Public Service Delivery

July 29, 1981

Thirty three years ago Rural/Metro Fire Department went into the business of providing fire service -- then and now one of the most generally accepted functions of government and the tax dollar in the eyes of the public. I am not here today to tell war stories about how we started or some of the problems we had in those early years but there are a few things I should tell you about where we are today, what we have accomplished and what might be done to encourage the spread of the best of what we have accomplished.

Starting with one station and one truck in 1948 we have grown continuously. Today we serve areas of Arizona and Tennessee from some 42 fire stations staffed by approximately 600 full-time and part-time employes. We operate a fleet of some 140 vehicles and provide not only fire protection in all its aspects -- suppression, prevention, emergency medical services, communications, and so forth -- but also ambulance and security service. Further, since initiating a consultation division some 18 months ago we have performed consultation service in 14 states and provinces of Canada. We serve Arizona communities including Scottsdale, a city of 95,000 persons; Sun City and its sister community Sun City West; the Town of Paradise Valley, Youngtown and others. Approximately half of our annual revenues are received from cities such as these and from fire districts, with which we contract through their top governmental authorities, councils, governing boards and so forth. Another half of our income comes literally from the door-to-door sale of annual subscription agreements to individual property owners.

Our objective and the reason for our growth can be most simply stated as the provision of cost-effective provision of emergency services, with equal emphasis on both aspects of that magic phrase "cost-effective". As our goal at its simplest has been provision of cost-effective fire protection service our method of achieving it it at its simplest has been to analyze every function of that service as a businessman or analytical student must and to separate the aspects that contribute to the service from those which do not. Please understand this analysis is at the very core of our survival. Our employers don't hire us just to do the same job at the same cost in the same way governmental departments in general do the job -- they hire us to do it a little better for a little less. We would not be here today if we did the same job everyone else does.

In the best spirit of American tradition we were forced from the beginning to do things better. We had to do something the governmental monopoly generally didn't - we had to compete to survive. We had to meet the test of the marketplace.

A representative example of what we found at first, and an easy one to understand, might be the big, beautiful custom-made fire trucks so common when we began providing service. In some cases they were blessed with 13 coats of hand-rubbed paint and $6,000 worth of chrome, neither very pertinent to their function of applying water to a fire and both a major expense to the taxpayers purchasing them. As one consequence of this we began building many of our own fire trucks. More importantly, brute economics forced us to examine the role of firefighters in suppression and led us to the conclusion the most cost-effective manning method -- and again with equal emphasis on both aspects of that phrase -- was to use a mix of career, full-time and on-call personnel paid for training and response. Please note I am talking about what we call the real world of fire fighting -- not Brownsville, New York; Washington, D.C.; Chicago, Cleveland or similar communities. I am talking about small and medium sized cities in which the fire problem is vastly different. I am talking about the heartland of our country, the real world of fire fighting.

There are many other ways in which we achieve results in our never-ending quest for cost-effectiveness at Rural/Metro. We not only build much of our own equipment but we build much of it to our own special and different designs. We have pumpers that incorporate drop-off pumps and other features to perform most of the work of two pumpers with one vehicle. We have a remote-controlled, tracked vehicle which can pull hose and apply water at a 500 gallon per minute rate at distances which make the firefighting task safer and utilize less manpower.

Years ago we researched automatic fire suppression sprinklers and evolved one of the nation's pioneer sprinkler ordinances -- a provision for sprinklering of large structures which not only pays for itself in insurance savings but reduces the future cost of fire protection radically as such systems are installed in a community.

We multi-purpose our vehicles, for instance carrying at least minimal water and pumping capacity even on emergency medical vehicles to make it possible to use them for two types of service instead of one. We build many of our own stations. By keeping a very close eye on the state of the art of fire suppression not only in this country but throughout the world. We learned of and helped pioneer such things as large diameter hose, quarter-turn couplings and other tools of effectiveness. We search the shelves of the marketplace for devices used in other technologies but applicable to the fire service. Widely hailed as innovators we might far more correctly be termed synthesizers. And we do all these things because we must compete. Again, that word "compete". I cannot overemphasize it -- because while most of us pay lip service to the word we don't really bend our minds far enough to think of competition in the sense that it might even include some of the traditional government monopolies such as fire fighting.

Examining the results of this competition for a moment, let us look at the City of Scottsdale. For more than 25 years we at Rural/Metro have had the privilege of serving this community. Its homeowners pay the same fire insurance rates as its neighboring communities. Its fire losses are somewhat lower. It has a complete range of services including suppression of fires, a very active fire prevention program, an efficient emergency medical response system -- but costs about one-half of the national average. Do you have any idea what this means for the quality of living in this lovely community? With fire service costs of approximately $17 per capita compared to a national average of more than double this for communities of comparable size, the city is saving its 95,000 residents about one and a half million dollars a year. Do you need to be told what we can do with one and a half million dollars a year in Scottsdale? With these savings and those produced by other management skills of the community's enlightened leaders we can build one of the nation's outstanding parks systems; libraries and streets, and provide services to make up that wonderful, undefinable thing we all agree is quality of living. Can you imagine what grand things we could do as a nation if we could all produce comparable savings in our government at one level or another while maintaining the services we desire? Let me assure you very seriously that having had a hand in this development and watching the communities we serve grow and improve as places to "live" has been a soul-satisfying experience to me!

We buck terrible odds, of course, in the provision of this established government monopoly service. We grow in spite of it and we grow while we pay thousands of dollars in vehicle license fees, taxes and other costs our governmental associates don't have to pay. Others, too, are starting to get into this service at a private operations level and they, too, are growing. What we really must defy -- and you, our national legislators, must be aware of it and help overcome it -- is simply an attitude that "it can't be done" because it hasn't been in the past. What! A private fire department! -- What! A private police department! -- What! A private jail! Well, they all exist. "Creeping capitalism" as, I believe, Newsweek magazine once called it, is nonetheless a trend in our country and we should all be grateful for it. Business is getting into the performance of everything from computer service to streets and highway maintenance to jail operations to, perhaps most notably, refuse collection.

If you and I can do anything to help in the spread of the type of private services which have contributed most in normally governmental fields in the past five or ten years it is above all to deal with this attitudinal problem. We don't fit into anybody's rule book at Rural Fire and we pay a never-ending penalty for this. A country that was built by and prided itself on its individualists and their successful, maverick ways of getting things done became almost a country that didn't give you breathing space unless there was a category for you on its governmental computers. Our minds reacted the same way -- we distrusted the new and the different. If there is a tribute to be paid to the men who organized this hearing it lies in the fact that they had the courage to examine what our stilted thinking has almost done to us and call a public meeting in which some of the mavericks could stand up and say: Look, we live, we breathe, we do it differently but it works. Let us prove it!

In the private provision of fire service, in addition to bucking tradition, we must fight the motherhood issue -- big, red fire trucks plated with chrome wherever there is room for it are as much a part of our upbringing as Mom and apple pie. I don't know how you fight with your mother, but I fight with mine very carefully -- and as seldom as possible.

It has been said, and it could be true, that Rural/Metro could only have been "born and raised" in a state like Arizona, a state with a cosmopolitan population assembled from throughout the nation, a melding of ideas and personalities from throughout the land assembled in an area still blessed with some of the individualism of the Old West. Perhaps only here, could we have been incubated. After all, this is Goldwater Country! The people we work for -- the city councils, mayors, managers, fire district directors -- must have the courage, just as we must, to do things differently and defy tradition. Our electorate must understand and be attuned to the benefits which may accrue from a defiance of tradition. And if the same things are to be created, permitted or encouraged by the federal government our federal leaders must have the same attitude.

If you had asked me here a year ago, I would have responded to any question about what the federal government could do to encourage the competitive provision of services generally in the public sector by saying just: "Get off my back", "Leave me alone", "Quit mailing me forms to fill out and I'll do my job very well, thank you". Frankly I'll say the same thing today, but with one magnificent, hopeful comment: I see good signs, and lots of them.

Your task and mine if cost-effectiveness in government is to be improved by, among other things, encouraging free enterprise to do its thing, lies first at an attitudinal level. We must encourage defiance of tradition, the will to make things change. The federal government's task is to wade through an unending morass of regulations and policies which impede progress or attempt to reinvent the wheel, simplify them and make possible provision of the new and the different without undue penalty. Wonderful preliminary signs of this abound in Washington today.

A few comments about progress and problems:

Problem:

The private entrepreneur -- in the refuse service or fire service -- for instance, pays for his equipment with 16 to 20 per cent money these days while his governmental competitors buy theirs with tax-free 9 to 11 per cent money. Is this fair? It's worth some study and some work.

Progress:

Legislation lies before the federal lawmaking bodies today to encourage installation of fire alarm and extinguishing equipment by providing tax credits somewhat similar to those available for energy conservation devices. The point is not even solely that such legislation would save lives by encouraging, among other things, fire suppression sprinklers, but that it will also reduce the cost of fire protection service since it is far less costly to protect a sprinklered property.

While it may be a little early to say the problem is over, it appears the federal agencies until recently embroiled in dispute with organizations creating consensus codes and standards at practically no cost to the taxpayer have backed off, permitting such standards to be cost-effectively handled by those involved in and enforcing them. Agency pressures, too, seem to be lessening and the taxpayer active in such organizations can again fulfill his function at a lower cost and with more speed than government was able to deliver.

Problem:

It should be mentioned also, however, that fire research funds apparently accidentally dropped in the process of performing some of the streamlining procedures in which the federal government has been engaged are sorely missed and need to be restored. Unlike the overlapping procedures being pushed by some federal functions in the code making procedures, this work provided valid input to the fire service of this country.

I have been in the private fire service, the business of doing the theoretically impossible if you will for some 33 years now. I recently retired after actively managing Rural/Metro and kicked myself upstairs to Chairman of the Board. I sold the department to its employes, who will now have the privilege of confounding the establishment even more than I did -- we're now not just a privately owned fire department but one owned by about 600 firemen, clerks, alarm room operators, ambulance attendants, security guards, secretaries, mechanics and a dozen other trades. I hope to spend my time less in the routine aspects of management and more in the challenging elements -- research, writing and, frankly, preaching a little about the old-fashioned American concepts of hard work, free enterprise and all those other virtues we got away from but now may be getting back to. I believe in them deeply.

I have been a white horse rider. I have been a truly fortunate man, a man with a cause -- the cause of proving that brains, hard work and luck could challenge the system even at the motherhood level of the fire service and win. I have found to my amazement that there are many other white horse riders in this world. I have found frontiers still exist -- they are frontiers of the mind, of government instead of mountains and forest. And they are just as challenging and just as rewarding as those frontiers our grandfathers faced so eagerly.

I have learned a lot. I have learned that the name of the game is, in government as in business, competition. If we at Rural/Metro have accomplished one primary thing it has been simply to provide the stimulation of competition to a tradition-ridden aspect of government that did not need to compete in the past. If this group is assembled here today looking for a one-line solution to many of the ills facing our government's fiscal problems, the line is obvious and an easy one to write: Man is a competitive animal, and most productive when he competes -- let him do so.

Thank you.

Senator **Durenberger**. This morning we heard a very inspiring presentation by Bob Woodson. He talked about mediating structures—institutions that stand between people in their private lives and the vast bureaucratic structures of American society. Now, we are going to have the chance to meet the people behind four of these mediating structures.

Carl Hardrick, youth services director of the South Arsenal Neighborhood Development Corp.; Sister Falaka Fattah, president and co-founder of the House of Umoja in Philadelphia; Macler Shepard, president of Jeff-Vander-Lou, Inc. in St. Louis; and Kimi Gray, founder of College Here We Come in Washington, D.C.

I am informed that is the final vote on the tax bill. So I will go over and cut your taxes and then come back and enjoy your presentation. All of you have been around here this morning and this afternoon and know the ground rules generally. You can make your presentations approximately 10 minutes in length. I am sure we will have plenty of questions, based on what we saw this morning and what you will have to say to us this afternoon.

I will just start out by expressing my deep appreciation to all four of you for what you have done out there over the years which brought you to the attention of this subcommittee. Second, I want to thank you for being willing to come here to testify about those experiences today.

You may go in whatever order you like. You may do it in the order I introduced you which was Carl Hardrick first. Or if you have something else, go right ahead. Mel will manage the panel and I will be back as quickly as I can. Thank you.

TESTIMONY OF CARL HARDRICK, YOUTH SERVICES DIRECTOR, SOUTH ARSENAL NEIGHBORHOOD DEVELOPMENT CORP, HARTFORD, CONN.; SISTER FALAKA FATTAH, PRESIDENT, HOUSE OF UMOJA, PHILADELPHIA, PA.; MACLER SHEPARD, PRESIDENT, JEFF-VANDER-LOU, INC., ST. LOUIS, MO.; AND KIMI GRAY, FOUNDER, COLLEGE HERE WE COME, WASHINGTON, D.C.

Mr. **Hardrick**. I would like to thank you for inviting us, Senator. Greetings from the South Arsenal Neighborhood Development Community. I was trying to think in terms of our history. When we started at South Arsenal Neighborhood Development (SAND), I guess we didn't have $22 million. We started selling chicken dinners. We actually started from a need.

I think Mr. Woodson did a very good job in terms of the history of SAND. South Arsenal Neighborhood Development Corp. is a corporation that was designed to take care of some self needs from a social point of view, an educational point of view and an economic point of view in dealing with its own problems. It recognized that, if those problems exist within the community, the best people to solve them were those in that community.

At that particular time, SAND was started in a very high-crime area covered with 271 units of 336 housing and also low- and moderate-income public housing. There were a lot of serious problems in the area. At that time, I was chosen to deal with a gang that existed in the area. It was about 900 strong and was called "The Magnificent Twenties."

We were doing a needs assessment in the area in terms of trying to find out why people weren't coming to meetings, and why they weren't recognizing that there were some very serious problems. There had been some shootings, the school system had been turned out, nothing moved, senior citizens were terrified in that community. At that time, we were trying to get at the root of the problem in terms of what seemed to be the gang problem—how did it get so big, and how did it get so out of hand. I was chosen to be the one to deal with that issue. I didn't realize the task I had until I got into it.

We had to be very much concerned about life. We knew that the services were not there and we knew that teenage unemployment was very high. Jobs were just not there. While working with the gangs, one of the things I discovered was that they really wanted to do the right things. They just had no sense of direction. There was a lot of energy in the gangs. I guess the only difference we found out between the gang and the organization was that one was funded and one was not. On the other hand, they had the same concerns and needs we had. They just didn't have the money. They took it in a very negative way. At that point, we thought we had to turn it around to make it positive, because the energies and the unity there were very positive.

I worked with a young man, Steven Holter, who was the leader. I felt as though most of the educational people thought he was crazy. I am saying he is very intelligent. Anytime someone can control 900 people, he has a lot of intelligence. I realized that, while I was talking to them, there was a difference between what they believed in and what I believed in.

I worked with Steven in the streets. You really had to put yourself in the street. You could not do it on paper. You had to be out there. You had to give up your personal life. You had to put your life on the line when it came to dealing with some of the situations. That is where you begin to establish the trust. If you are sincere, then when they call on you, you have to be there.

When the shooting started, we had to bring them to the table and ask, "How do we solve this problem?" After dealing with that, we began to talk about positive programs, counseling and doing a needs assessment within the gangs. When they began to turn around we found that they were getting on the front page at that stage. Then when they began to give turkeys to senior citizens and parties for the other small children—doing positive things—you could not find an article in the paper. This showed them the difference that once you turn around, you do not get the headlines you used to get. We found that a lot of the press which stated that they blew up things was not necessarily true. Some of it was true, but a lot of it wasn't. It was very difficult for them to change that name.

Nine hundred people are working in youth programs. We were trying to decide whether it will be a serious problem this summer in terms of jobs—youth employment. How do we deal with CETA? How do we deal with private corporations? At that time I met with the tobacco growers. We knew CETA had, at the most, 700 jobs in the city of Hartford. They had to deal with the region—the towns, the suburbs, and everything else. When it came to Hartford, itself, the most we could have gotten was 700 jobs for the whole city. We knew we had to go to the private sector.

At that point I sat down with Consolidated Cigar, which was dealing with the tobacco growers. The gangs were saying, "We want to be employed." Once they began to settle down, the bottom line was the j-o-b, "How do we get a job? We want to work and do the kinds of things we want to do. We want the kinds of things everybody else wants, but we want to earn them from an honest level." Recognizing that they are going to do something, we asked "Can we keep them going in a positive manner? Can we employ them?"

At that time we sat down with Consolidated Cigar. Consolidated Cigar contracted out, with most of the kids coming from the Southern States—Mississippi, Virginia—into Connecticut to pick the tobacco. In our city we were seeing up to 20,000 kids who needed jobs. We asked them, "Why are you going way across the South to get your workers?" Their response would be, "Look, what we deal with is the profit. We have tried inner-city kids and it just hasn't worked. If we don't get the tobacco when it is green, we lose it. That is what we are concerned about. If it means bringing the children in from Virginia, Mississippi, and Pennsylvania, then we will do that." At that point we said, "Well, maybe we can talk about it, because we have a need here in the inner city. We have unemployment, and we think you can cover some of that."

So, we sat down and were able to negotiate 150 jobs with Consolidated Cigar. They were very much concerned. They were willing to try to make it work if I would monitor the situation, which I did. SAND had to be on top of everything that went down. I think it worked and is still working even though they had cut back—the industry is cutting back. We have gotten many jobs through them.

At that point we began to approach the private sector. Now, we found out that CETA was interested in doing a needs assessment on the various types of jobs. These individuals said that they were trying to develop jobs which would be marketable—data processing, keypunching, and so forth. We sat down with the vice president of personnel for the Aetna Life Insurance. We talked about employment for young people. He stated that if I could find the skills of the young people, he would hire them.

At one point I went to a round table discussion of the Vice President's Task Force on Youth Employment which was held at Aetna Life Insurance. The industry there said, "Well, yeah, sure we have an overabundance of jobs for young people. There is plenty of employment, but we just can't deal with the attitudes." I can identify 2,000 to 3,000 children who need employment from the ages 14 to 21; and they are saying that there is an overabundance of jobs which are available. They just cannot deal with the attitudes. At that point we talked about setting up a job readiness proposal which would deal with the attitude and make young people marketable for the skills which are out there. In talking with some industry people, they were saying that most young people are not trainable, or that it is too hard to train them.

What was CETA doing? Was it just a spinning door, taking people; or, was it training them for skills which we found to be marketable? We discovered that CETA really wasn't training people. Industry said they tried CETA workers, but it didn't work out. What we are trying to do now in the Hartford area—I have only 3 minutes—is to work out the employment problem. We find that industry has to pick up some of the problems in terms of youth employment. They are willing to do this if they can work with a community-based organization which is reliable and can make connections. If a situation comes up, that organization can come in between and deal with any problems resulting from the lack of supervision or the lack of experience in dealing with the young people.

We talked about employment in terms of an abundance of available jobs up there, and an overabundance of people not qualified to get them down here. How do we match up that? I think we have to do that in private industry as well as SAND. The young people are beginning to talk about skills. We are certainly talking to Aetna about establishing a training center in this area, because of our success in working with the young people to solve some of the gang problems with the Hispanics and the blacks, and in dealing with exdefendants.

My time is up.

Mr. GRAY [presiding]. Sister Fattah?

Sister FATTAH. I am very awed by being here, really. I have to say that. It looks like a boxing ring. Maybe what we are dealing with is a competition of ideas. I don't know.

Nevertheless, the House of Umoja had its beginnings at a magazine office where I was editor and publisher. It was part of the protest literature of the sixties. We had an established editorial policy that, in the pages of Umoja Magazine, we would not present any problems to the black people which we didn't have solutions for. Then the problem of gang warfare came to our attention, basically through letters to the editor. Every time I opened the mail there would be more and more letters about why it was, in the city of Philadelphia, that children killed each other. We didn't really have a solution to that problem. So, I asked my husband—who was the only one on my staff who really had any street smarts—if he would do a study for us, if he could find out what was going on.

He did his study by hanging out on the corners and going into bars, et cetera. As a former gang member himself, he had a pretty good idea of where to go. He also attended a great number of funerals and visited many youths in the hospital. To occupy my time, since he wasn't home anymore, I started reworking my book dealing with "The Strength of the African Family"—as it had existed before Africa was colonialized and carved up by the European powers.

We were sharing the same typewriter. My husband was basically coming to the point that the family had suffered a great transition with black people coming up from the South to the North. That because of the economic crunch on the family, the mother and the father were not home, thus many of the kids were out in the streets. The kids had transferred some of the family loyalties which normally accrue to the corner —the gang.

In my book I was dealing with the strength of the family from the tribal traditions. That family was a social and economic unit. There were rites of passage and roles for men, women, and youths. It just seemed to me that if family breakdown was the problem, maybe that type of African family—if it could be reinstituted in an urban setting—could be part of the solution.

When we went back to our staff with this proposition, they said, "Well, it sounds good, but you have got to prove it. You don't have any credentials in the field of social work—neither one of you. We really can't allow this to go into the magazine. You really have to prove that there is some evidence that a change in family structure will make a change in the negative behavior of gangs."

So, we thought about that and decided that the only way we could prove it would be to live it. Also, in my husband's research he also found out that one of our sons was a member of a gang. This was something which I was totally unprepared to deal with. Nevertheless, we decided to invite the 15 members of his gang to come and live with us. That was the beginning of the youth program at the House of Umoja.

Since that time, we have had over 500 gang-oriented youths living with us. The House of Umoja has grown from one house then to 23 houses now. Our existence had basically been one of raising all of our own money for our large family, with some contributions of food from the Catholic Church.

In 1972, a new mayor was installed in Philadelphia who campaigned on law and order—Mayor Frank Rizzo. He issued an ultimatum to the gangs that they had to turn in their weapons. There was a time limit on it. We were very concerned because we knew the Panthers had been raided. We knew that the people in the neighborhood knew that gang members lived at the House of Umoja. We didn't know whether or not we would be part of an early morning raid. So, we had long, deep discussions about what we should do. We had a system of governing ourselves at the House of Umoja—a system of negotiating that would keep peace within the family. We thought, maybe, if we could somehow export this system, if we could have a large meeting and talk to the leadership of the gangs, and if we could not get them to give up their weapons, then maybe we could, at least, get them to give up using their weapons.

In 7 days we contacted over 200 youths who had lived at the house and asked them to bring the leaders of their gangs to the meeting. Over 500 leaders showed up at the meeting. I think it is important for you to understand that meeting, because I think it represents a change in the way people—particularly youths—view themselves. The conference went from 10 in the morning until 10 at night.

During the morning session, I talked to the youths about death. I asked them to estimate the number of people of African descent who, in the middle passage of the waters, never reached these shores. I asked them to estimate the number who had died during slavery, and during the lynchings. Then I asked them to add up the number who had died during the wars, and if they could estimate how many millions of black men we were talking about. Finally, I asked them if they could please tell me why they were adding to that number by killing each other. The room was very quiet. I don't think anyone had really spoken to them that way before.

Then we took a break. We had some very pretty girls serve them lunch. That was part of the psychology.

In the afternoon session, my husband took over. He talked about specific gangs and some traditional wars, and why the wars had started. What he found out in his discussion was that many of the groups had been fighting for 20 to 30 years, and that they had forgotten the original incident which had caused the dispute. What came out of that session was that they were fighting without a reason.

During the evening session, the two of us teamed up on them. We talked about, "Well, now what? If you could have what you want to have, what would that be?" They said that they wanted respect; they wanted jobs; and they wanted recreation. However, their most basic need was for respect.

The conclusion of the conference was that if you want respect, then people first have to get to know you. People will not come near you if they are afraid of you. So, you will have to stop killing so people can get to know you.

That is basically my statement.

Mr. Gray. Thank you, Sister Fattah. Mr. Shepard?

Mr. Shepard. I come from a little different part of the country. I may be talking about St. Louis—you could maybe call it the Middle West or whatever—but the problems seem to be the same in other instances. We happen to be plagued with urban renewal at the time.

Many of you have heard talk about the Pruitt-Igoe, which became a famous name. Urban renewal was the product of the Pruitt-Igoe situation, therefore, there was a lot of crime. It brought about uncertainties, hostilities from the local community, the police department, the city, and the mayor. You could name them all. They all had problems with the whole area of the Pruitt-Igoe. It housed approximately 13,000 people who had built it themselves. They then contemplated adding another concept of urban renewal into the area in which I am, which is next door to the Pruitt-Igoe.

To give you a little information about me, I was a small businessman in the area into which they were trying to move. In that area, I was going to be affected if that urban renewal came. Being a scoutmaster in that area for about 14 years, a number of the young men whom I trained in scouting were grown up and had families in that area. They came to me and asked, "What about all this good leadership we were supposed to be getting in scouting? We come back to our community to emphasize and implement all this to have a thriving, living community. What happens to all of that if urban renewal is the only concept by which we can rebuild our neighborhoods?" I had to think about that. I had no answer for them. The training they had was good leadership.

The only thing about it, I think, is that all of us had not considered what we had been trained to do. We had allowed other local governments and other government people to do our job for us—particularly when we talked about making quick, instant housing. Therefore, we were victims of our own voting and our own acting.

Then they said, "What can we do about it?" I answered, "What we have to do is go down and challenge the planning which is on the drawing board." "How do we do that?" We had to form a number of community people together and talk to the alderman. In the city of St. Louis we have 20 aldermen.

We went and got the alderman and talked to him about it. He said, "You are too late; the plan has been laid. You should have spoken about this months ago." We felt that the new plan had been laid because the one they had laid before was not serving the purpose, so they were talking about tearing it down. We told them that, if they wanted to perform their new plan on the old method, they could give us the old plan they started before. They could turn it over to the community, and we would then make that work rather than talk about another urban renewal. I imagine you might understand what came from that. Our own alderman went against us on that.

Because the young men I had worked with had a lot on the ball, we were prompted to go further into it. They had a lot more on the ball than I thought they did. They were young men. They were concerned about their families being raised in that neighborhood, and being raised up with decent housing.

They asked, "What about all these houses right here where we are? Why don't we stop and just do something about the houses we have in our own area and not worry about any of that?" I said, "The only way we can do that is by stopping the plan." How do you stop a plan when all the city fathers have endorsed it? It is a very difficult thing to do, but it can be done.

We went down to the board of aldermen and demonstrated against the plan. We took people from the neighborhood who didn't even know they had the right to go to a board of aldermen public hearing. We took four busloads and went down to the board of aldermen. When they opened up the session that morning, they only had standing room for themselves. I think we put something on their minds that morning. They were wondering why we were all there. We said, "Well, we found out that we had the right to come here to see who works for whom. Do you all work for us or do we work for you? That is the only reason we are here this morning. We want to find out just who is working for whom."

During that day they didn't get much work done. They called that meeting off and changed their schedule. We all went home wondering. We called in our alderman and asked him why he called off the meeting. He said, "We are not used to working under that kind of circumstance, with too many people in the gallery at one time, unless they are there for a particular purpose. We want to know what your purpose is for being there." I said, "Our purpose for being there was to find out just what you are going to do with the urban renewal proposal you have on the drawing board. It is just a proposal right now; it is not a plan. When we found out that it is not a plan, that it is just a proposal, then we said, 'we are coming to you with a plan, not a proposal.' The plan is to save the community without urban renewal."

They then went to all the people who were homeowners in that area at the time. They had taken our names. They then came up to each one of the houses with an inspection, giving each family on that committee 60 days to bring their houses up to what they called the "housing standard code." A lot of the homeowners asked, "Well, why are you doing that now?" The response was, "If it had not have been for your leaders coming down here demanding to change the plan, we would not be out here doing this." That really got the community up in arms. The more they worked against us, the more they organized us together.

Today, since that organization time, they are saying we cannot do what you all did. It allowed us a chance to go back and form the Jeff-Vander-Lou Corporation. We formed that corporation and then we came back with a plan. They turned the plan down time after time.

The Social Democratic Service said that Jeff-Vander-Lou rated one of the highest indexes of all in the social services—the death rates, TB, VD, low educational achievement, crime, infant mortality rate, heart attacks, demolition, and a high rate of unemployment throughout our area. We pulled all this information together and wrote it down. We then said, "Now, this is our plan—to start working on some of these."

We also pointed out that in our area we had the two medical institutions, St. Louis University and the Washington Medical University. "All these things happened without even a house or mortar. We wonder why, then, you are fighting our plan when you had all kinds of opportunities to deal with these things that we are talking about." Then somebody else said, "Well, we don't have the money. Go to the private market and get the money."

We went to the private institutions and started talking. They said that they don't make loans in our areas; we were too high a risk. So we went from there to Hesston, Kans., to some of the institutions and churches—particularly the Mennonite Church to which I belong. We went to Hesston, Kans., and raised $50,000. We came back and did our first houses, and started on our way from there.

Mr. **Gray**. Thank you, Mr. Shepard.

I have to interject one announcement before we proceed. As most of you may know, Senator Durenberger serves on the Senate Intelligence Committee and that committee has just gone into executive session. He will be involved as they attempt to decide the fate of one of our higher officials. He will return just as soon as he is able. So he is, for the time being at least, unavoidably detained.

Mrs. Gray?

Mrs. **Gray**. Thank you very much for allowing me to make a presentation before you this evening. My name is Kimi Gray, mother of five. I reside in the community of Kenilworth Courts.

The community program came from a dream of three students who live within the Kenilworth Courts community. They came to my house in December 1974, prior to finishing school themselves, with the dream of going to college. I, myself, had not been fortunate enough to attend college, therefore, I had no idea of which route to take. I went to the social service agencies in our community and asked for support and advice. I then went to the HEW and began doing my own research to find out ways to receive financial aid which would assist my students.

Prior to us breaking up that day I told the students that we would meet next Tuesday. By that time I was hoping I would be able to have some information for them. By that next Tuesday, Ronnie, Terry, and Lonnie had told Beanie, Sam, and Rickie; and by the following Tuesday they had told others. So in a very short time my living room was too small to house all the students.

"College Here We Come" is the name the students voted on. At first the group was called "The Kimi Club." We met religiously every Tuesday at 7 p.m., with new ideas and support for each other. Our main concern was that nothing was going to get in the way of our students going to college.

We set up fundraisers to raise money for ourselves. One thing we did not want at that time was any type of Federal funds or local funds, because those funds came with mandates. Mandates would change the whole thought and concept of our program. By living in Kenilworth Courts in public housing for a number of years, we found that the moneys from federally-funded programs never got down to the residents. Therefore, our students would never receive the benefits.

From that point on, we began to work as a family, instead of an organization. College Here We Come later became incorporated by the students themselves. We began to set up our own rules and regulations by which you had to abide. There was no fee to join. There was only one commitment. That commitment was that you had to return to the community, and bring back some of the knowledge which you had gathered while you were away in some post-secondary institution.

The first year that our students went away was August 1975. We sent 17 students to different institutions around the country. In 1979, our dream became a reality with those 17 students. Eight of the 17 graduated in the top of their class. Four entered graduate school. Those eight students are still working voluntarily in Kenilworth Courts in different aspects. We allowed our students to go into the traditional trades of teachers and preachers. We sent our students to major in economics, nursing, and engineering. We demanded that they stay on top of their classes.

College Here We Come was not financially supported, as I stated earlier. We knew we had to involve the parents of these students who were very doubtful of our program at first. They said, "Mrs. Gray, we are trying to get them to finish high school, and you are talking about putting them through college." I then asked the parents to join me. We developed a Parent Booster Club. The Parent Booster Club—talk about selling chicken dinners—had raffles and car washes. The students themselves had to participate in everything. They had to be on time for meetings. It was a matter of discipline.

We found that the majority of the students in our community had not even finished high school, let alone had any thoughts of going to college. When the first 17 went away and came back with their experiences, it was like a new door had opened. They knew if these 17 could do it, then the rest could do it also.

With that, I want to inform you of some of the things we have done in our community. College Here We Come started bringing other students home with them. This made them aware that there were baldheaded lawns, no grass growing, and graffiti on the walls. Before bringing their friends home, they wanted this to change. The students themselves started programs. They got committed to start different organizations. They wanted to involve students in other things. They started athletic associations. They started Help Youth organizations which they chaired and ran themselves. They only wanted adults in when they needed financial support; however, most of the time they were able to get their own financial support. There were disc jockeys in the community, and discos are a way to make money.

We began to work with the sixth district, a local police precinct. At first, there was no type of rapport between the police and our community. We also began to work with the D.C. Board of Education and the superintendent of the school system. At first, there was a resentment that Kimi Gray was trying to take a counseling job without the formal training. I explained to them that I was not seeking their jobs, but was only attempting to help them ease their positions. They found out that I was not taking their jobs, but was instead helping them; and that Superintendent Vincent Reed was an asset to our program. After meeting with him to explain what we wanted to do, he sent one of his memoranda down to them, which opened the door for College Here We Come. They started sending out transcripts.

We also educated the parents in the public housing development. They had no idea on how to plan their children's school schedules. If the counselors in the schools told a child to take applied math for 4 years, they took applied math for 4 years.

Our children were not academically prepared to enter college. When they took math examinations like the SAT and got very low scores, folks assumed that blacks were ignorant. That is not so. The students were not being taught properly. Because the counselors were being forced to come back into these areas to teach, they didn't put their all into it. Counties get the best because they pay more money. We found this to be very frustrating. We began to meet with the teachers and explain to them that they had a purpose.

We learned one thing in our 7 years of organization. There is a difference between an educator and a teacher. We met several educators. When we met these people, we asked them to volunteer—people like Prentice Whitfield who is principal of Woodson Senior High School. They came nightly to our program, with no pay, to tutor our students.

We have a student who wants to become an engineer. He is attending Howard University, with a 3.6 overall average. He is going to draw the blueprints for our community to build some additional townhouses. We are going to get the money to do that.

College Here We Come gave Kenilworth Courts the injection or the life it needed to realize we were as good, if not better, than other communities. College Here We Come is a family, not an organization.

I thank you very much.

Before I finish, let me say one thing. Today I brought with me some of my students. They are also the staff of College Here We Come. Once they go away, they have to come back and work for us. Will you please stand? [Applause.]

In January 1981, the Mayor of Washington, D.C., and Bob Moore, the Director of Public Housing, evaluated our program. They gave us a $78,000 grant. Everybody was shocked to learn that the program was not topheavy and administratively staffed. I recruited my students. I took them off other jobs and told them they were obligated to come back and serve their community.

Mr. GRAY. Thank you, Mrs. Gray. That is just the kind of effort we would expect from someone named Gray. We will have questions now.

Mr. Scott, you may go first.

Mr. SCOTT. Thank you. I want to make it clear, after having read Mr. Shepard's statement about their efforts to make the local alderman a little more responsive by taking pictures, that I stay awake during these presentations. I have, I guess, two questions.

I am kind of intrigued by those of you who have been involved, in one form or another, in the housing question. I ask this question of those who have had something to do with that issue, particularly those who have tried, in some way, to get housing built for families of limited means. Your testimony and accounts are, indeed, impressive. What I am interested in knowing is how you have been able to go about finding places—the sites for the housing you were planning to build—and obtaining community support. Specifically, were you able to find sites in your communities for the housing which you were attempting to rehabilitate or build without community opposition? Did you find the local communities receptive to the efforts you were making?

Mr. SHEPARD. We carved out nine blocks which had vacant houses. Those houses had been vacant for over 5 to 6 years. We used what we call the real core of the problem. We would go where nobody would touch the houses and modernize them without relocating people. The community was very happy to find out that they didn't have to be relocated while improvements were being done in their community.

Mr. SCOTT. Did you do any construction of new housing?

Mr. SHEPARD. We did new construction only after we rehabilitated the old structures. We brought the old structure up to code first. We called the new construction in-fill. We first had to go in and build up the old which were standing there vacant, in order to stabilize the housing market. We called this the core of our problem. The new would come in where we could not save the old or where there were adjacent vacant lots. That is why we carved out nine blocks where we would make our miniature housing stand.

Mr. SCOTT. You did that new construction with community support?

Mr. SHEPARD. We did all of it with community support. The new construction became the in-fill.

Mr. SCOTT. You didn't have any substantial opposition? That is what I am really getting at.

Mr. SHEPARD. We had oppositions in putting together everything. The first thing we had to do was save the old structures, which were structurally sound. We learned how to build the new ones by saving the old. We thought the new ones would be easy to build. When we were ready to build the new ones, however, codes were so different. They wanted all this changed. They wanted 20-foot front set backs. They wanted no buildings on 25-foot lots—you had to have it on a 40-foot. It got just as hard as to meet the changes of the code as it was to meet the codes for rehabilitating an old structure. We learned the rules, however, and we learned how to play it.

We couldn't put air-conditioning into the rehabs, but we could on the new ones. However, once we put air-conditioning into the new ones, we had to go back and air-condition the old structures. I don't know if they meant it to be bad, but it really turned out to be good.

Mr. HARDRICK. The problem we had was that we had originally talked about 684 units of housing and only ended up with 270. Therefore, we had a lot of disappointed people. The reason is that we were on the tail end of Nixon's moratorium on housing. We just barely got the 270 units. We had a choice—do you build 270 units or do you just scrap it? Do you come out with something that you had originally talked about when you organized with the community, 684 units? Certainly, this is not even half. So, we went ahead and built it.

The problem we had with 236 housing is that it had to be compatible to the suburbs. Inner-city families are a lot bigger. We ended up with two and three bedrooms when it should have been five and six bedrooms. At that time a person had to make a choice. The type of housing inside of SAND had to be built the same as it was in the suburbs so people could have a choice. There certainly weren't many big families in the suburbs. So, we lost on that.

The construction was late. We started late because of the government regulations and other things. We had a fight all the way to the end. The fact we started late meant that construction had gone up

98 percent. So, we started at a loss before we started. We were $2 million in the hole.

Mr. SCOTT. Did you have community opposition to the 236 projects which you were developing, which you finally did develop?

Mr. HARDRICK. The opposition we had was concerning the number of units and the sizes they were being built as required by the regulation which was handed down to us.

Mr. SCOTT. Federal regulations?

Mr. HARDRICK. Right.

Sister FATTAH. We are in the process of building the first inner-city Boys' Town in America. We have taken surveys on the 23 houses that we own on this one block. We have taken surveys concerning possible community opposition. We first developed plans with the other families who lived on the block. Then we helped organize a community council so that the other block associations and the other community organizations would be supportive before we started to build. We have done surveys. We had the youths go throughout the community to survey opinions before we started to build. What we discovered was that 80 percent of the community does support us and 20 percent does not. We have attempted to have community meetings with the 20 percent who do not support the house. We found that 20 percent basically suffer from a great deal of misplaced class attitudes. They feel that the youths are from low-income and from a lower class than they are. We are trying to change that attitude.

Mrs. GRAY. Let me say something, Mr. Scott, please. College Here We Come has not gotten into the field of building homes or anything of this nature. Not only am I founder of College Here We Come. I am also chairman of the Citywide Public Housing Board in Washington, D.C.

Right now we are in the process of challenging one of our city council members in his new venture of what I call "old urban renewal," what I refer to as "people's removal." He wants to tear down three of the public housing developments in ward 7 of this city. We are in total conflict. We have an alternative plan. He has not presented his plan, but I do agree that the homes should be renovated. We have asked the city to give Kenilworth Court residents a chance to go over there and work with the residents. We have not received any response to this yet.

We have asked for some additional things to make sure the property does work. That would eventually lead us to becoming our own managers of our own development. We are under private management now; however, we have been running our own property the way we want to run it for the last 5 years. Nobody can work on our property unless they are residents. It does work.

I have been to St. Louis, and I have seen Pruitt-Igoe. I think it is splendid. We found tenant management does work. I have traveled on my own to see how it does work and how much folks can do if they really want to do it.

Mr. SCOTT. Mr. Downs and I happen to live in the same county. This whole idea of finding mediating structures, being able to accommodate or provide for a community need may, indeed, work in some places, as you have proved. However, in our community when a nonprofit corporation, which is composed of too many residents, attempts to provide housing for people of limited income, we get an entirely different community action.

Mr. **Downs**. That is partly because in Fairfax County, which is an extremely high-income county, building such housing is introducing a different group into an area dominated by a middle- or upper-income group. In the areas Ms. Gray is talking about, you are making housing for residents already there, or people very similar to those already there. You are not introducing a different group. I think it is fundamentally a different question.

Mr. **Scott**. It is not always that way, even in Fairfax County.

Mr. **Downs**. Really?

Mrs. **Gray**. No, it isn't. That is why they have created "scattered sites," where a resident of my income could live next door to you and no one would know the difference. I believe that more of that kind of housing should be created.

Mr. **Downs**. I agree with you.

Mrs. **Gray**. Maybe you are not taking the right folks into the community to do the persuading.

Mr. **Gray**. Are you available?

Mr. **Downs**. It seems to me that all four of you are magnificent examples of response to adversity by members of a local community. You were no longer willing to accept the situations you found yourselves in so you have launched positive efforts largely on your own—not because of government programs or even existing private sector programs. Your efforts were aimed, at least in part, at changing the values of the people who are there. These efforts have been successful, at first almost in spite of any government activities—especially in your case, Mr. Shepard, when the government was opposing you all the time.

What is it that made you respond in this way? I think a crucial part of the need in communities like yours throughout the country is precisely self-development and self-changes in values. That is not all that is needed, but it is a vital thing. Is there some common ingredient? Were you all just like the hero in the movie Network, who got mad as hell?

Mr. **Shepard**. You hit the real word right there. We fight from a crisis, and this was the crisis. We couldn't stay and we couldn't go. When you are backed up against the wall, you have to fight to survive. Urban renewal, as she was saying, is our removal. We had already experienced that if we moved out with urban renewal, we would never move back. At this stage of the game we fought with what we had, to preserve the right to stay there if it was developed. Certainly, I think that is what it is. It is called a spontaneous type of leadership which comes when you don't know you have it.

Sister **Fattah**. I think my response came because I could not understand why children were killing each other. I think it also came out of ignorance because of being a woman—a girl grows differently, sometimes, than a boy does. I didn't really understand what I was doing when I called for the conference. I didn't know what I was starting.

Mr. **Downs**. Would you have done it if you had known?

Sister **Fattah**. I don't know, to be honest. My husband told me not to do it, because he had been in a gang. When they came into the door and checked their weapons, and I was sitting and looking at their faces, I was thinking maybe my husband was right.

Mr. Downs. But you did it, though.

Sister Fattah. Yes, I did it; and I am glad that I did. What I have found out over 12 years of dealing with these youths is that the youths are pretty receptive if somebody will just listen to them and care about them. Then, everything is possible.

Mr. Hardrick. One of the areas that we, in terms of SAND, it so happened that people were removed from a certain area because there was a commitment that housing would be built there. As the people watched over the years, they saw more and more insurance companies, businesses, and everything else. When there was talk about urban renewal in our particular area—in the South Arsenal area—these people remembered that they had been railroaded and run out of an area before. They refused to do it again, at that point. At that point, I guess, they said, "There is going to be a struggle. We are determined that we are going to govern our own destiny."

Looking not only at housing, you will find other elements that were affected—in employment and in the academic area. The school system wasn't doing its job. If you are going to change the community, at some point, we all have to go back to school—the children as well as the adults. We took it from that standpoint by saying that we would begin to identify and to solve problems in our community—and certainly we should have a solution. If we need to go outside for answers, then we should do that.

Certainly, we should be able to address our own problems and ask for the support we need. We don't need to have someone across the hill, or in the suburb, design things for us which do not fit, nor do they identify the needs that we think we need in order for us to survive where we are. Certainly, people can do that much greater than the government or anyone else can.

Mr. Gray. This is not a good time to think about how things might have been otherwise. If you exercise your imaginations a little bit—we heard this morning about a couple of experimental programs which would provide housing assistance or income grants. What if instead of urban renewal, people received supplementary income which they could use at their own discretion to meet their own needs as determined by themselves. Might that have made a difference?

Mrs. Gray. Yes; I say this because in Washington, D.C., when city renewal first started, they began by moving families out of Southwest into Georgetown. I believe that if grants were made available to the families at that time, they could have renovated their homes and stayed there. Instead the government split up a lot of families and scattered them all over the city. They placed them in these public housing developments. They created these monsters which they are now trying to destroy the same way they did Pruitt-Igoe.

That is why a lot of public housing developments in this city have joined together. We are doing what we call our own thing. We are beginning to do a lot of renovation to our units. We are also supporting our Housing Directors, Mr. Moore and Mr. Pierce, and asking for additional funds to do some renovation.

However, there needs to be some different guidelines. That is why we are meeting with the board of education, to develop programs. The residents on the citywide advisory board are doing this because we also want better living conditions. We know some public housing developments in the country can be an eyesore, and we don't want that either.

I believe that if grants are made available, folks could renovate. There is a lot of skills right within the community.

Mr. **Hardrick.** When we look at South Arsenal, we see that 270 units have been built. One of the things that we regret is that they were built without the participation of the community. I am talking about participation in terms of putting up the brick and mortar. This was simply because of, one, the union; and, two, the skills and the time required for putting up the unit—the cost factor was there. If we had to do it again, SAND feels that it is very important to involve the community in the skills area of putting up their own housing as much as possible, because they can then feel like they are very much a part of that.

Mr. **Downs.** Some of you have gone around the country and talked to other people in other cities. I know Mr. Shepard has done this. Either as a result of that or as a result of other factors, do you feel that people challenged in the same way are showing more spontaneous leadership? Is such leadership emerging from communities like yours in other parts of the country? Or, do you think yours was a unique phenomenon?

Mr. **Shepard.** I worked with the national commission for a while. I was surprised to learn that a lot of it had not started moving. I thought it would have, due to the rise and everything. If you go there, they still lay waste. They move the people to another place to start all over again. I really am surprised. No, I don't see a lot of it, and I have moved around.

Again, we have to talk about it in order to develop something. You must develop on land. The average community does not own any land, therefore, it is difficult to go on another person's place to build your house on his land. I think the communities have to look at that. Somewhere along the line, if you are going to do some of the things we are speaking of—if you are going to do anything—you ought to make land available, because if you go in there and build up the other folks' land, they are going to move in and exploit it the way they have in the past. If you are going to do anything like that, it is very important that the companies, the local governments, and the neighborhoods sit down together with all their resources. They should tackle this thing from community to community in meeting those needs, because each community's needs are a little different.

Insurance brokers profit more on this than anybody else in the world does. That is why Uncle Sam is the biggest insurer of these projects. Therefore, we need to have that sort of thing come together. It can be done, but we have to do it where the community will be owners. Since they are going to be the prime payers and sponsors of this, they ought to have a share in owning this.

Mr. **Gray.** On that note, I regret we must draw to a close. On behalf of Senator Durenberger and the subcommittee, I would like to express appreciation to our presenters who have shown by their own efforts that alternatives are feasible. I would like to thank my fellow panel members, Mr. Scott, Mr. Downs. I would like to thank those of you who have joined us and have shown by your attendance that our deliberations have some meaning.

[The prepared statements of Mr. Hardrick, Sister Fattah, Mr. Shepard, and Mrs. Gray follow:]

PREPARED STATEMENT OF CARL HARDRICK, YOUTH SERVICES DIRECTOR, SOUTH ARSENAL NEIGHBORHOOD DEVELOPMENT CORPORATION, HARTFORD, CONNECTICUT

This is the history of some of the things done by SAND, the South Arsenal Neighborhood Development Corporation in Hartford, Connecticut. SAND was incorporated in 1967 as a non-profit, tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code.

The neighborhood in which SAND is located is one of the five areas of Hartford with the highest concentration of low and moderate income families. It is estimated that approximately 19.9 percent of the city's population below the poverty level lives in this area. The people are mostly black and Hispanic with at least 45 percent of them living on fixed incomes. The number on public assistance doubled between 1970 and 1980.

SAND started back in 1965 as a response to community problems resulting from urban renewal. At that time, in Hartford, people were being removed from their homes by the city and were told that housing would be put up for them. Instead, industry was placed in the area--data processing firms and the like. People in South Arsenal saw this happening and began to organize themselves to keep from being removed and the neighborhood begin dismantled. These neighborhood groups, eventually incorporated as SAND, started out as representative committees to take petitions to the state and local authorities. We were so organized and so determined, that eventually the city was forced to deal with us.

We formed the corporation called SAND to talk about designing and building our own housing, since new housing was a critical need and urban renewal was not about to help us. We planned for 684 housing units originally, without fully realizing how complex it would be to get these approved, financed and built, or knowing what resources actually were available. Also, the administration changed about this time and with it the rules and regulations we had to deal with. In the end, SAND only managed to get 270 units built.

This initial achievement was good in itself, but disappointed a lot of people who had worked hard and expected accomodations for themselves. There were also unexpected problems. SAND changed at this point from being an advocate of the people, struggling for better housing conditions, fighting against the landlord, to being a landlord itself. As a landlord, we had to impose things on people that HUD required. Moreover, HUD itself was not entirely clear or consistent about what its guidelines were. Many community people were angry because they had struggled for this housing and now found they lost-out due to guidelines that were set by someone else. As the apparent landlord, SAND was being blamed for applying HUD's rulings.

In the midst of this conflict, we began to see that you could not put up new housing and get some benefit from it without dealing with other things that affect the people in the neighborhood, such as educational, economic and social needs. You cannot just put people into new houses and expect them to flourish without giving them any sense of direction.

Accordingly, I was assigned to work with social problems in the area, especially the problem of youth gangs. One gang in particular, the Magnificent 20's, was very strong and menacing. They were 900 strong and when they moved, nothing else moved. People were afraid to come out of their homes. The gangs were starting to shoot at each other and the entire school system was turned over. People told me: "Carl, you're going to have to deal with these young brothers, because as soon as you turn your back, somebody starts shooting. We can't deal with anything until we deal with this."

So, I started working with the gangs. I soon found out that it was a full time job if you wanted to be successful. You cannot do it on paper; you have to be physically in the street all the time if they are going to respect the things you do.

I sat down with the gang leaders to try to find out what they wanted and what they wanted to be about--trying to let them feel their way. I discovered one young man had real, unchallenged control over the rest, because he was very sharp, mentally. He knew how to get around any situation and he never had to fight to make his point. When he told them not to move, nobody moved. He knew how to get the worst guys in the gang to respond to him. This was the one I knew I had to work with.

Others had attempted to work with him without any success. The turning point came after someone shot at him one day and narrowly missed. There was talk about a total, all-out war. I told them that, instead, we should bring everybody to the table to find out what the problem was. The leader agreed to back me if I could get the gangs together, but said nobody will go into another gang's turf.

I finally managed to arrange this meeting at a neutral, in-between place. When we sat down, it appeared that nobody could really say what they were fighting about, except that the women associated with the gangs seem to be agitating the whole thing--spreading rumors and challenges until people felt they had to fight to keep respect. The exciting way the local news covered the street fights also helped keep the thing going. But, starting from this first meeting, we began to change what the gangs were all about.

An important fact about a gang is that it is a social organization for action. To keep peace, you must see that positive actions replace the negative ones. In the case of the Magnificent 20's, the group soon started to do positive things to help out in their neighborhood. But once they began to get a sense of direction, a new problem developed. The leader of the gang, who meant so much to the young brothers coming up, was recruited by some uptown workers to help them in other neighborhoods with similar troubles. A lot was lost through this, because we was not ready to move out yet. He was not known in the streets where he was sent and his effectiveness was lost in the place where he was known and respected.

After starting to settle the gang war problem, we found that everything really boiled down to economics. Our people needed jobs, so we contacted Consolidated Tobacco, a firm that hires people from Mississippi and Virginia every year for seasonal farm work. We argued that it would be cheaper for them to hire city kids for the same work, but they were afraid our boys could not be depended on. To solve this, I took on two tasks: 1) to convince the employers that the people who came to work would be controlled through their own leaders; and, 2) to convince the boys that farm work was decent work, it paid and it was not what you would have to do all your life. We got 175 tobacco farm jobs that year and the gang leader became one of the supervisors. We were able to modify some of the racist talk coming from the farmers when Consolidated was made aware of this problem.

One thing has led to another with SAND. In trying to solve housing problems, we had to deal with youth violence. Dealing with the young people, we had to help out with their unemployment problems. Next, we found we had to deal with the bilingual-ethnic conflicts in the area, the community being 51 percent black and 49 percent Hispanic. We needed to hire Spanish speaking staff to deal with the Hispanic neighbors. Expecially, we discovered the need to publish everything we did in both languages and to work to promote respect for each other's culture. All community people share the same needs and must cooperate with each other to solve their joint problems. Eventually, our ecumenical efforts earned us great respect in the Hispanic community.

Through this inter-group work and our concern for the community youth of both groups, we became involved in education by developing the SAND Everywhere School. The elementary school in the area was very slow. The dropout rate was high. Parents were discouraged or uninvolved altogether. Kids were automatically passed from one grade to another, so that—if they got that far—twelfth graders often read on a second grade level. We know how difficult it is for anyone in a technical society to get along without basic skills. The local school had some good athletes, but even they could not go on to college, because they did not have the basics.

SAND decided the community had to take charge of the educational institution. There had to be community involvement. Everyone felt that we should hire teachers and administrators who felt accountable to the community, not to the union or the board of education. We wanted to redesign the school to be a real, integral part of the community. The school should not be just a nine-to-three thing for children, but a base for adult education, community meetings and whatever activities we wanted.

With this in mind, we set up a Multi-Instructional Area (MIA) to be our school. Now, there are eight units scattered throughout the community where we are looking for complete education--for both parents and children, for the sake of community survival. We feel that a community that wants to develop itself must be educated. Without skills and information you cannot make the right decisions.

We found that some resources for developing our school were already there. When the school had discipline problems, we were able to bring in the gang leader everybody respected to set things straight. He told the young people that he could not get a job because he had wasted his chance to learn in school and that they should not waste theirs. This young man has a Ph.D. of the street, because everybody listened to him and settled down.

The actual MIA units we developed began in a warehouse. The high-rise public housing in the area had brought so many people so close together, that we had many problems--drugs, gangs, terror in the streets, killings, everything. With the MIA we made a new environment for the children, small, modular, physical units, using an open class situation. This worked so well that later it was made a model for the rest of the city.

Parents decided that education was not just in the little classroom, it was everywhere. They recognized that there is a learning process in the streets that is much greater than the one in school. We began to put the street process into the educational institution. We tried to make kids as comfortable within school as they were in the street while giving them the math, science and reading they needed.

At first, teachers in our schools were afraid because of the reputation of the area. We wanted teachers who would even make home visits to keep families in close contact with their children's work. We worked for genuine involvement between teachers and the whole community.

When we first started, we extended the school day in order to be able to bus the children to outlying suburban districts, for them to see the resources available out there that they just did not have in the city. Moving from one environment to another and reporting the experience was a helpful part of the education process.

Later, some suburban people came down to study the education we were giving in the warehouse. They decided that they wanted to bus their own kinds to the SAND Everywhere School. You see, if you have a good education system in the city, you do not have to bus your children out, they will bus children in.

Now this warehouse is a library and cultural center for community affairs. It is one of the few places in the country used by both Hispanics and blacks freely, both cultures being reflected in every aspect of the operation of the center. The neighborhood now is free of graffitti and vandalism and we feel that our SAND Everywhere School is the main reason.

Another development stemming from the concept of the Everywhere School is the communication center we have planned. Since not all parents can get to the school, we plan to put cable TV linking the classrooms and the individual apartments in order to keep both parents and teachers involved continuously in the development of the children. If a parent wants to know what his child is doing, he can see for himself at any time. The union thought this would be usurping their control, but we think it is very helpful. Parents will be right there in the classroom, learning what their children are learning.

They will be able to understand and respect the teacher better and to help their children get ahead. This program is still pending because promised funds have been cut out of the budget.

In addition to finding our direction and working out problems with one another within the South Arsenal community, we have had to deal constantly with the political world. SAND has survived four administrations, but always with difficulties. When you have agreements with one administration, a new one comes in to whom you have to sell the program all over again. If they don't approve, they will begin to take back the funds promised and the fight begins. Each administration comes with its own ideas. They very often turn out to be against everything you stand for. We must constantly fight the same battle over again, because each new administration begins by disbelieving we can do what we do.

If we are going to survive and continue to grow, we must become more sophisticated. For example, to get the things we need for education, we would do well to put someone from the community on the education board. This is another plan we are developing. We also must find ways to expedite the application for grants and to meet the complex, frustrating and often irrelevant requirements for record keeping and accountability usually attached to public or even private sector jobs for our people.

A final problem I will mention derives from our success itself. We have a transient population. As people start to make money they become ineligible for public housing and have to move, and we then have to educate new people about the community, the school and the traditions of inter-group harmony we have developed. For the continuous community involvement we have built up, everybody must understand and accept the role he plays.

Thank you.

PREPARED STATEMENT OF SISTER FALAKA FATTAH, FOUNDER AND CHIEF ADMINISTRATIVE OFFICER, HOUSE OF UMOJA

Call And Catalystic Response

A distinct characteristic of African music is a call and response. Juvenile Delinquency is a call for help and the correct response is love support and concern. Before the Philadelphia black community learned this, our children were killing each other at the rate of 35 to 45 per year. Here at the House of Umoja, which is a black nationalist family, with extended family members drawn from 73 gangs across the city, we have made a 12-year effort to respond.

However, first let me explain that blacks did not bring gangs to Philadelphia. Philadelphia's gang problem is as old as the city itself, dating back to 1791, when waves of European immigrants reached the city of brotherly love. By 1840, Irish, German, and other ethnic groups were fighting for turf and enscribing their names on neighborhood walls. These gangs were armed with slubshots, pistols and knives, and caused riots which resulted in arson, shooting and murder. The gang problem has been found all over the world, in England, Japan, Germany, Austria, Scotland and Russia. In this country, there have been Polish, Irish, Jewish, Italian, Puerto Rican, Mexican-American, and African-American gangs.

Violence by youth of African-American descent rose in Philadelphia, after the social gains of the 60's were taken away in the 70's. It increased until 1973, when Philadelphia's homicide rate for black males, ages 15 to 19 was 10 for every 100,000 black residents. However, in 1974, the gang death declined by 21 percent and there was also a 15 percent decline in gang incidences which are defined as stabbings, shootings, not resulting in death.

At the beginning of 1975, 38 of the city's active gangs, active gangs being about 84 or 85 gangs had agreed to stop fighting. Deaths declined to 15 in 1975, 6 in 1976, to 1 in 1977. Youth violence dropped even futher in 1978. With 24.7 percent of all the arrest for violent crimes compared with 26.7 percent during 1977.

Here at the House of Umoja, we spearheaded the "No Gang War in 74', and "Keep More Alive in 1975" campaign aimed at these youths/ and attribute this decline to.

a. Decisions reached by youth on their own and peer pressure via planned conferences and during requests for peace pledges and general discussion.

b. Concerned parents both organized and unorganized, showing their loved and taking more responsibility for caring of their children.

c. Sensitive media coverage exemplified by black journalists such as, Acel Moore, Joe Donnovan, Joe Davidson, Charles Harmon, Steve Shore, Chuck Stone, Laura Murray and Mike Boyle.

d. Community groups, such as Network, Sourthwest Parents, Black United Liberation Front, Mantua Community Planners, Nation of Power Wynnefield Residents' Association, Neighborhood Crusades, and North Philadelphia Mother's Concern.

e. Black nationalists group, such as the Nation of Islam, the House of Umoja, and the African People's Party.

f. Since April 1975, the Crisis Intervention Network aided technically by the Youth's Services Commission and the Juvenile Aid Division of the Managing Director's Office.

g. Changes within the Juvenile Justice System towards humane care. and community-based services.

We have based our findings on the work of an evaluation committee which met on January 4, 1975 to evaluate the effectiveness of the 1974 "No Gang War" campaign. The membership of that evaluation committee included lawyers social workers, priests, probation officers, professionals from the youth, services field & state legislator, and mothers.

Collectively, they concluded that the "No Gang War In 1974" campaign had increased the consciousness of youth to the deadly results of gang warfare and thereby decreased it. The evaluation committee further stated that black youth must have a positive self image if future gang-related deaths were to be entirely eliminated. They called for collection and dessemination of good news about youth, and in addition, they asked the House of Umoja to continue the peace campaign ito 1975, and they created the slogan, "Keep More Alive in 75".

In April 1975, before Crisis Intervention Network began its work in the streets, 50 gangs pledged peace during a Life-a-thon which the House of Umoja coordinated with WDAS Radio Station. This activity was planned to coincide with the assassination date of Dr. King, April 4, 1975, and youths were asked to pledge peace in his memory and they did. After the Life-a-thon, the first team of the Crisis Intervention Network went into the street led by team leader, David Fattah, (Field Director of House of Umoja). With him were Charles Burrus, Mike Reed, Morris Manson, Robert Bethea, & Ali Robinson.

By September 1975 the numbers of peace pledged gangs rose to 80 during the last WDAS-Umoja Life-a-thon. Yet in most media coverage of gang warfare, these peace pledges reflecting the committment of the youth is rarely mentioned.

Back in 1969 the problem was so severe, that the news media had labeled it as the "Year of the Gun". Philadelphia was hailed as the street gang capital of America.

Our response at the House of UMOJA was to invite 15 gang members to come and live with us: myself, my husband and our six sons. Prior to inviting them my husband had "took" to the streets to gain impressions of how to cope with the youth. He hung around the corners pool rooms, bars, attended funerals of gang war victims and made visits to hospital emergency rooms, to talk and observe gang members. One of his conclusions was that at the root of the pathology which caused the gang conflicts was the massive disruptions in family life caused by black migration to the North. This migration thrust countless numbers of families into often hositile and strange industrial urban environment. There were economic pressures which forced families to split and among other effects deprived the families of the ability to meet the economic and emotional needs of the youth.

Also, one of our sons was a gang member and this intensified our concern to do something about the problem. As a writer, I researched the black family structure of pre-colonial Africa and was preparing to write a book on the strengths of the tribal structures. After listening to my husband's observations about the problem, I reasoned that perhaps part of the answer to the problem was in the extended family. An attempt to recreate this kind of kinship, we invited the 15 members of the gang, which my son affiliated with to come and live with us. The only committment made to these young people was to help them stay alive and out of jail.

Once in residence, we encouraged the youth to organize with our family along the lines of the African extended family. I believed that street gangs attract their members because the group can provide the individual with the same emotional and material security as the family unit. The extended family of the House of Umoja served to replace this particular gang's need and gave it something of equal value in its place.

By attempting to divert youth gangs from destructive to constructive activity, we- at the House of UMOJA, have found several detectable causes of violence; namely:

1. Physically punitive - family members
2. Overcrowding in Housing
3. Racial Oppression
4. Lack of personal self discipline
5. Absence of Hope
6. Romaticism re: Hustler life style

Violence as family affair had been prolonged from generation to generation. Physically aggressive parents tend to have physically aggressive children. This is learned violence to the point where violence is expected and accepted behavior.

Our first year together was one of hardship, but at the end of year, no one was in jail, and we were an extended family, that cared about each other. However, we began searching form some way of exporting to others some of the caring and love and concerns that we experienced at the House of Umoja.

By 1972, the administration, was calling for gang members to turn in their guns. It was our feeling at the House of Umoja that the gangs would not turn in their guns, and that we were not quite sure what the reaction of Mayor would be if he was not successful. Also, we had noticed at the House of Umoja that each time there was a death in the streets, it affected the harmony within the House .

We were very concerned about what we could do to solve the total problem. We had developed a system at the House of UMOJA, which we called the "adella system", where if anyone had a grievance against another person in the house, we would discuss it until we were able to negotiate an agreement.

Beginning in 1972, we launched a series of gang coferences bringing together the leadership of gangs to discuss the causes of the wars and to develop agreements for peace. We were supported in this effort by the Church, Black Social workers, the "Activist" community and the Guardian Civic League (the local police association.)

At each conference recurrent themes were raised by the youth. They wanted respect, job decent recreational opportunities, and understanding, but they themselves had not respect or understanding for the value of human life. They were hopeless, but aggressive and their frustations and tolerance were low. We also found that they were used by everyone. They were used by Politicians to get elected, and also used by government and social agencies to get money. We found that gang youth had become an economic base for the greedy and an escape valve for the racist. However, we also found a crying need for love and willingness to communicate.

In 1973 we decided not to have a conference, but to visit gang members in prisons throughout the state of Pennsylvania, and to solicit their support in planning a final conference and all out campaign to end gang wars.

That final conference was held on New Year's Day, January 1, 1974, with 32 gangs in attendance. One of the most significant agreements, was between the Valley and Norris street which had been traditional enemies for years, and who were responsible for four of 1973's 44 gang deaths.

Another significant agreement came four days later at a meeting between the Zulu Nation and the 8th Diamond street at the House of UMOJA.

Their agreement was written on a "No Gang War Poster" and given to Governor Shapp by the youth themselves on January 8th, 1974. The Governor responsed by ordering the posters to be placed in every State Store In Philadelphia.

The struggle for agreements continued throughout the year. Discussions were held in Churches, Police Stations, on street corners, in Homes, Schools, and recreations centers.

Hundreds- of people became involved as the catalyst for peace in street impacted on the Philadelphia Community. It was an idea who's time had come and the youth responsed to the outpouring of attention which they so badly needed.

Response ranged from the call for "instant solutions" and defeatism to cynical disbelief when the police announced a decline at the end of the year.

Despite this however, in the Black community, people continued to work and devised innovative programs to save the lives of their children.

Between 1969 and 1980 we have had over 500 gang youth at the House of UMOJA. We have struggled to build a home and lend a family for those who need it. No one has ever been shot or stabbed while in residence.

GANG KILLINGS:

A Tragic Timetable

UMOJA founded

1968

Gang fatalities start to rise in Philadelphia.

15 gang members invited to live at UMOJA

1969

For the second year in a row gang fatalities reach into the 40's ... hundreds of kids wounded. Still no action from Mayor Tate. Only 40 gang workers under the Youth Conservation Service, headed by Kavanzo Hyde, are assigned to 120 gangs. Still no movement to beef up forces by the Tate administration.

1970

Almost a child a week being killed in Philadelphia. Senate investigating committee under Sen. Pepper looks into the gang problem in Philadelphia. Promises to send resources ... nothing ever happened. City Council passes bill to allocate $400,000 for more gang workers, $600,000 for Lead Paint Poisoning program. Mayor Tate holds the money waiting for riot to occur in the summer. None does. He then gives the money to the Sanitation Department for salary increases.

1971

Gang fatalities still high. Rizzo wins election, names Hillel Levinson Managing Director and overseer of the gang problem in Philadelphia. Edna Thomas, a worker for Rizzo in the black community, with no apparent background or expertise, is appointed head of the gang control replacing Kavanzo Hyde.

Over 200 gang members have lived at UMOJA
Gang conferences started

1972

Under Hillel Levinson and Edna Thomas we lose another 38 kids. Schools are terrorized by gangs, schools actually close because of gangs on different days. Number of gangs rises to 220. City's answer to gang problem ... declare a moratorium, ask all gangs to turn in their weapons. Approach is laughed at by Media and the kids, handful of guns turned in. City using band aid approach ... no real programs.

UMOJA visits prisons and plans final conference

1973

Rizzo and Levinson finally call for Youth Service Commission to be funded by LEAA funds. *Mayor wants to make all appointments on this commission* ... community objects ... 8 month battle ... still no commission. Administration supposedly demotes Edna Thomas and brings in Zach Clayton to coordinate all activities connected with youth. Nothing in Clayton's background indicates that he has any expertise in that area ... willing worker, but no resources and apparently very little organizational ability ... City finally decides Clayton is not right for the job and offers it to city employe Ed Rosenwald, who turns it down. Still no programs. No urgency. *No real* commitment to the gang problem in Philadelphia.

—Compiled by Ron Bloomberg *Designed by Rob [illegible]*

PREPARED STATEMENT OF MACLER C. SHEPARD, PRESIDENT, JEFF-VANDER-LOU, INC., ST. LOUIS, MISSOURI

I come before you to give the history of what we have done about neighborhood development in St. Louis. I hope the story of our experience may help others to get started.

When urban renewal was proposed for our neighborhood, we voted for it—thinking the neighborhood was to be rebuilt for us. Instead, we found out it was just the opposite. Our vote, it turned out, was a vote to give up our right to plan for what we wanted for our neighborhood. Not only that, the dollars spent in the renewal would not even result in income for the community. The laborers and bricklayers would be brought in from outside. When we objected, programs were set up to train us for the work; but, before we had acquired the skills, the building was built and the contractors gone.

Other problems were brought in by urban renewal. The Pruitt-Igoe Housing Project was a disaster. It was built with no thought about the needs of the residents. People recently arrived from the rural south who were unused to buildings over three stories high and completely unable to adjust to crowded conditions, were forced into an eleven-story building. Most residents were expected to be from one level of income, single and female with many children. The incentive was for families to break up—the husband forced to leave so that his wife and children might have the subsidy. Spot checks were even made to see if a man was in the house. The results: inevitable chaos.

No care was taken for how residents were to be served. The elevators stopped only on every other floor of the eleven-stories. There were no bathrooms other than in apartments and no playgrounds for the kids, so every child was required to play on his own floor. There were no outdoor lights or peepholes for security in admitting callers. Problems were built-in that frustrated people more than helped. Complaints resulted in vague promises of doing better on the next renewal project.

As a result, the community held a meeting in which all agreed that they wanted no more urban renewal. My business was located next to the disastrous Pruitt-Igoe project and my concern for the community and for my own business were joined. I was elected chairman of a committee to plan an alternative to urban renewal housing. We decided to act together as a community. We called in university student volunteers to document our proceedings and to help us.

These young people made us see that our first problem in organizing the community for positive group action was to deal with the law enforcement in the neighborhood. We agreed that if we were to work on law enforcement problems, the young people, who were most concerned about this, must identify the role they would play in helping us enforce the law.

After considerable debate involving the entire community and the youth, we drew up a list of things we wanted and presented it to the local government. They agreed in principle, but rejected the plan as too costly saying it was too ambitious for a group like ours to undertake. They offered expert advice, but their substitute plan did not contain anything for which the community had asked.

So the community raised money for us to go to Washington to ask for the money to carry out our plans. At the Washington Housing Department, we were treated politely, but it was clear that they had not read our proposal. They doubted our ability to handle the $15 million our proposal called for, recommending, instead, that the community try borrowing from a local bank. "First establish a line of credit," they suggested, "then convince them that the community can do the things that the project calls for."

The community was intensely disappointed, but the project was not abandoned. Instead, in four days, the community raised close to $2,700 for a housing rehabilitation pilot project. For $750 we bought a four-family flat that had been abandoned by an absentee landlord for a demonstration project, we rebuilt that house, using our own funds.

Next we started researching the churches to find out how many church trustees owned property in our area. These property owners were called to a meeting. We advised them that we would make "stars" out of them by publicizing them as "Landlord of the Month" in their slum neighborhood. Within twelve hours, we were flooded with calls asking what we could do to take the properties off their hands. We found that we could not take the property because we had an inappropriate tax status. We had to form a 501-C-3 corporation that was tax exempt and, since these owners were also businessmen on the trustee boards of the churches, they immediately got together and helped us form the appropriate tax status.

Next we discovered that you could not build without having property that you own. By researching the history of our neighborhood, we found it to be a national historical site. For example, our neighborhood was the home of Scott Joplin, who wrote the music for the 1904 World's Fair. We discovered facts about our area that made it the most historical site in St. Louis. Neighborhood people volunteered to check these facts and we had our land declared an historical site.

Next we collected busloads of our community people, both employed and unemployed, to go to the Board of Aldermen's meeting to fill the gallery and to check on what our own representative was doing for us. We found that we had the only alderman who was asleep on the job, really, physically asleep. We took pictures of him and showed them around the community. This got action.

The secret of success in community action is doing your homework. Never underestimate community people who understand this.

When the mayor supported a bond issue for urban renewal in 1966, we spoke wherever the mayor's people went. We poined out that if you voted for this bond issue, you voted for housing that lacked hot running water, for housing that lacked many necessary things. We defeated the bond issue by rallying two votes against for each one in favor, but it made us enemies of the local government.

The government tried to put pressure on our membership. They hurt us in some instances but they also angered and unified us. For example, there were people in the neighborhood who thought they owned homes or were buying homes. When we went into the business, we found that although they had been in the house for fifteen years and had not missed a payment, they owed the same amount they had the day they bought, because they had been sold two or three mortages.

This is how this scheme works: one mortagae is a balloon note, that was the second deed; another mortgage was the first mortagae. A balloon note meant that they would lend you the down payment and from then on you would pay off the balloon note before you could start paying on the principal. You never did start paying on the principal until ten years later, $1 would be applied to it.

When we found that many people were living under such contracts, we advised them to simply walk away from the obligation. When they abandoned their property we found out who carried these mortgages and publicized the fact all over. Then these mortgage holders claimed that it was all a mistake. Some of the largest banks in the area were involved, acting under subsidiary names.

In this case, having the facts was a key to the solution. We found out that possession of a property was nine-tenths of the law. Owners cannot afford to move you. In St. Louis, they have to give thirty days notice and then you can apply for an extension of thirty more days. Meanwhile, you occupy the place and pay nothing to the mortgage holder. With nothing coming into their pocketbook, the owner must pay attention to you. Moreover, when there was an eviction, and a person and his things were on the sidewalk, we had a crew lined up to put him right back in as soon [illegible] sheriff walked off. Another eviction would have to be processed.

We agree, however, that this was a disreputable game. We needed a respectable goal that would take care of our housing needs. It was at this point that we started building houses, not to be landlords, but to be brokers of rehabilitated property to families.

The first families bought under the 221H program. We rehabilitated two hundred or more homes under the Section 8 program, which allows a twenty to twenty-five year mortgage with $200 down at interest rates from 1 percent to a maximum of 3 percent.

We were told that we needed a lawyer who knew corporations and real estate. We also found that if you were going to buy land, a lawyer had to use a title company. We decided to do that ourselves. We just walked in and put our money in escrow with the title company. This gave us real credibility with banks and other lending institutions. These were things we had to learn the hard way.

Having done this much, we found out we could clear up some other problems. I urged people to buy because I guessed the subsidies would run out. I was right. When Nixon was elected, they changed to the 235 Program which subsidized big business, not families.

We then became landlords in order to stay in business. That is, the organization became a landlord, with a condiminium contract which can be done under the 235 Program. If a family is in residence five year, it can co-op and buy the property, if this is stipulated at the beginning in the first dealing with HUD. We found out that HUD is only the insurance agency underwriting the deal. You have to take HUD's gurantee to a financial institution in order to get cash.

We then became the liaison person between the community and the employer. Our people did not go to the company to take an application exam, we set up an employment office in our neighborhood and the companies came to us to give exams and to recruit. We advised the companies that might hire our people, for example, if any black people from our area have some sort of police record, we would let them know, so they could make judgments based on full information.

But it is important in this community redevelopment work not to integrate all of your activities. That is, you must make sure that you keep your business activities separate from your benevolent programs. You must make sure everybody understand the limits of your budget for benevolence and the business aspect of your program.

In summary, Jeff-Vander-Lou began as an effort to combat the dislocation and costs to the neighborhood of urban redevelopment, like the Pruitt-Igoe Project through community organization. We found it was necessary to provide our own alternative housing plans. For this we would need a number of things, not the least of which was appropriate information about government programs, financing and legal matters. We had to learn everything from scratch and learn how to use what we discovered effectively. Through it all, the volunteer efforts and continuing cooperation of various community groups were essential.

Our principle result has been the construction and rehabilitation of 800 units of housing, an aggregate of $23 million worth. We rehabilitated a slum on the northeast corridor of the community so that low income families could live in sanitary, adequate, decent residences. This was our initial goal.

Our activities have expanded, however. In order to achieve our initial goal we have had to deal with problems of unemployment, youth crime, and business development in the area. The corporation has been instrumental in inviting in the Brown Shoe Company, a firm with the capacity to employ 435 people at peak operation. As a result of our efforts, a grant from Monsanto Corporation has initiated the extension of the local shopping mall into a potential capital resource with fixed capital outlay of $300 to $550 million in assets. The money from leases will return to the community for the continuation and expansion of capital-producing programs. Our efforts have also reduced crime significantly in the area, so that the area is now insurable. We are, moreover, able to attach and develop job training to all of our projects. We also successfully curtailed the expansion of the North-South Distributor Highway that was disrupting the community.

We have encountered different kinds of barriers to what we want to do. One difficulty lies in the initial lack of information and in getting the facts from authorities who control information, in order to take effective action. At another level, since was are an advocacy organization on behalf of the people, we encountered a tacit opposition coming from many directions. For example, federal and private monies that came into the area were channeled to an agency set up by local authorities to stop us at every turn. This agency, the Yeatman Corporation, was constructed to do the very thing we ended up doing. It is now about to go under.

Jeff-Vender-Lou has now rehabilitated and constructed over 400 housing units, we have day care centers, convenient shopping areas for residents, emergency medical facilities and a communications system. We are still working hard as a community to improve our neighborhood.

Thank you.

PREPARED STATEMENT OF KIMI GRAY, FOUNDER, COLLEGE HERE WE COME

This is a brief account of a community program in my neighborhood, the Kenilworth Courts housing project in northeast Washington, D.C., called "College Here We Come." This is one of our efforts in Kenilworth Courts to help our children survive.

Education is essential to basic survival in America. One effect of automation is that a majority of the new work roles available requires higher levels of education. In Washington, D.C., one out of every five has completed four years of college or more. Young people just beginning their working life enter this kind of labor market. In addition, examination of the local job market indicates that 65% of available jobs require the equivalent of two years of post-high school education, although 20% of new available jobs pay less than poverty wages.

The National Capital Housing Authority (NCHA) houses over 10% of the population of Washington, D.C., all of these persons being poor by definition. One way out for these poor, young people is through an education which meets the demands of the current job market.

I began meeting with staffs of the Far East Community Service, Inc. and the NCHA back in 1974, to plan how to motivate and assist the youth of Kenilworth Courts to get their college education.

Our primary purpose, we felt, was to provide a structure for our young people that would help them to understand the value of advanced education and to encourage them to see themselves as actually college bound. We planned to supply all the necessary information about requirements at different colleges and to help our students meet them.

In this way we began all kinds of education related services to our youth. Since education and worthwhile jobs are so strongly related, and since jobs, achievement, self-respect, security and a decent living for our families are our motivation, we believe that these education activities are essential to basic survival in the community.

We started by tutoring our youth in basic math and english skills. At the same time we set out to develop whatever else would strengthen their bid for college success. We taught them how to write term papers and essays; we practiced debates and worked on vocabulary building; we had great roundtable discussions in which we were developing the values and attitudes supportive of a successful college education. We also arranged a summer job placement program for our college bound kids, to support their academic ambitions. In every way we could think of, we were selling our belief in college-based mobility, and making that base a reality.

Here is an outline of some of our more recent achievements:

5/79 - The first eight CHWC students graduated from a variety of colleges and universities.

8/80 - Sixth Annual Meeting of CHWC: Achievement awards given to seven 1980 college graduates. Twenty-five new students left for college.

9/80 - College Fair: Recruiters from fifteen colleges with information, such as admission and financial aid applications, came to talk with our students. One hundred twenty-five students attended.

10/80 - Summer Job Placement Project, PHON-A-THON: We conducted a two week telephone campaign to local businesses, asking them to pledge a job for a CHWC student. We taught our students interview-skills, resume writing and how to complete SF 171 forms.

11/80 - The staff attended a "Financial Aid Workshop for Counselors" sponsored by EOC and we were successful in receiving fee waivers for the SAT from EOC.

1/81 - The Assistant Dean of Admissions at Wilberforce University conducted an orientation workshop for students planning to attend the university, complete with financial aid forms, admission applications and slides of the campus.

- Mayor Marion Barry and Bob Moore, director of the D.C. Department of Housing and Community Development, presented CHWC with $78,000. This grant, from HUD's Community Development Block Grant Program, is for the expansion of our services to other areas of our city.

2/81 - A conference was held including students, parents, CHWC staff and the Advisory Board of Public Housing to discuss the proposed academic high school.

4/81 - A Scholarship Raffle was held, earning $250 for

CHWC. Attended House hearings on Public Housing. Assisted our employed students with Federal and District income tax forms.

5/81 - One day visit to Virginia State University. Six students completed their academic studies, four from four-year institutions, one from a two-year and one from a post-graduate vocational school.

- Forty-seven students referred to Mayor's Youth Leadership Program.

7/81 - Conducted various week-end visits to colleges in Virginia and North Carolina. Twenty CHWC students participated.

To date we have two hundred fifty-five members in CHWC with two hundred three of them currently active. Fifty-seven of these are now in college, the job corps or some other post-high school training. Four more are in military training. We also have fifty-eight high school students with eighteen of them accepted for college this fall. Twenty-one others have applied and are waiting to hear about their acceptance.

Among other activities we have started to help our students, we teach sex education, public speaking, how to study and how to apply to colleges and schools. We have sponsored college recruiting activities and a political lobby for support of public housing.

We are trying to get local housing authorities to do a better job of maintenance and management by giving additional operating subsidies to well-run projects. The NCHA has responded by transferring managing chores to us, the residents of Kenilworth. In Kenilworth we realize that these are our homes - our only homes, since we can't afford anything else. We are determined to take care of what we have, our homes and our young people.

Mr. **Gray**. We stand adjourned until 9 a.m. tomorrow morning.

[Whereupon, at 4:45 p.m., the subcommittee was recessed to reconvene at 9 a.m., Thursday, July 30, 1981.]

ALTERNATIVE SERVICE DELIVERY

THURSDAY, JULY 30, 1981

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 9:07 a.m., in room 318, Russell Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

Review panel: Charles Schultze, the Brookings Institution; Verne Johnson, vice president for public responsibility, planning and development, General Mills Corp., Minneapolis, Minn.; Brian O'Connell, president of Independent Sector; Charles Mel Gray, professor of economics, College of St. Thomas, St. Paul, Minn.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. Good morning, everyone. I hope no one attributes any particular significance to the surroundings here this morning. We have been shifted around a couple times and apparently this is the only place that was available.

This happens to be the place where a lot of Senators announce that they are retiring from the Senate and want to be President. This is also the place where I met Deng Xiaoping for the first time. This is the place that Joe McCarthy made famous when I was a kid. It is one of the more historic parts of this very historic building in this obviously historic institution. I am glad we are going to wind up this part of our examination of alternatives for public service delivery in this kind of environment.

Just to recap quickly, we devoted our first session to the development of a conceptual framework and a definition of the various strategies for moving toward alternatives. Yesterday we concentrated on specific working examples of alternatives which are being tried around the country. In this morning's session we will turn to the public sector. Those are the intergovernmental actors who are looking for new ways to meet their obligations for carrying out public service policy.

The topic for the presenters will be the changing intergovernmental role in public service delivery.

Before we begin the presentations, I would like to introduce—or reintroduce in some cases—our review panel. Dr. Charles Schultze, who was with us on our first panel, is with the Brookings Institution. Next to him is Verne Johnson, vice president for public responsibility, planning and development for the General Mills Corp. in

Minneapolis. Next to him is Mr. Brian O'Connell, currently president of Independent Sector, and a presenter in our first session. And our surrogate chairman, when the chairman steps out of the room, is Dr. Charles Mel Gray, professor of economics at the College of St. Thomas in St. Paul.

Do any of the panel members want to say anything before we start with our presenters? [No response.]

Before we begin exploration of the changing intergovernmental role, I wish to introduce a witness who is really part of the focus from yesterday. Mr. William Norris is president of the Control Data Corp. Mr. Norris' reputation as a true innovator and entrepreneur precedes him in his travels around the world. We discussed the term entrepreneur at some great length yesterday. In this sense I say an entrepreneur in the oldest American tradition. He manages one of the most successful data systems companies in the world. However, today he will talk about some of CDC's activities in education, community economic development, and farming.

Bill, we are honored and very pleased that you could come and spend some time with us today. Please go ahead with your statement.

TESTIMONY OF WILLIAM C. NORRIS, PRESIDENT, CONTROL DATA CORP., MINNEAPOLIS, MINN.

Mr. **Norris**. Thank you, Mr. Chairman and members of the subcommittee. I am pleased to join you this morning to talk about new ways of delivering social services.

Relying mainly on public services for meeting many of our societal needs has not stopped the near disastrous decay of our inner cities or our poverty-stricken rural areas. It has not alleviated shamefully high levels of disadvantaged youth unemployment. And, it has not changed an unresponsive educational system and antiquated, overcrowded prisons. Of course, all of this is compounded by already overburdened government budgets. This sad state of affairs exists because we do not utilize the main source of our technical, managerial, professional, and financial resources in this country—namely, the business community.

We need a fundamental change where businesses take the initiative in partnership with the government and other sectors, to address societal needs as profitable business opportunities. More specifically, I am proposing that the government contract with businesses to operate public schools and prisons, and that it provide tax incentives to get disadvantaged youth into meaningful jobs.

Moreover, in cooperation with the government, the big businesses can help assure the successful startup and profitable growth of small businesses, which is the principal source of net new jobs. The big businesses can also fashion and initiate programs to revitalize distressed urban and rural areas.

Change is more urgent now than ever in the past because President Reagan's proposals reduce Federal support for many human and economic development programs. Even in the unlikely event that those Federal dollars could be replaced with State and private funds, the results would be maintenance of the status quo, at best, with no improvement in our social condition.

Currently, there is much discussion on how the private sector should respond to the decreased Federal role. The prevailing view is that corporations should increase their charitable contributions. Already, non-profit organizations are invading corporation board rooms in record numbers with requests for more philanthropy, more loaned executives and inkind services. But the gap to be bridged is too great. For example, in fiscal 1982, government financial support for the programs administered by non-profit social organizations will be reduced by some $20 billion. By 1984, this public service gap could be as much as $90 billion. Private giving, therefore, would have to increase almost 150 percent between 1980 and 1984 just to make up for inflationary impacts and Federal spending cuts. During the past 5 years, private giving increased about 38 percent—a rate lagging well behind inflation, as you know.

For a number of reasons, it is unrealistic to expect that businesses and foundations will increase their rate of giving nearly four-fold to make up the anticipated shortfall. First, there are no incentives in place for increased charitable giving. At the same time, businesses are under enormous pressures to allocate more funds to increase productivity, to fend off growing foreign competition, and to offset the ravages of inflation, while improving earnings.

It is also not realistic to expect a substantial replacement of Federal dollars with State funds because of the strong negative reactions to tax increases. Therefore, the only answer is a new public-private approach which focuses on profit-driven initiatives by the private sector. While not widely perceived, this profit-driven approach is no mere dream. My company is conducting successful programs—carried on in cooperation with many other organizations, both public and private—that address society's unmet needs as business opportunities. We do this not because we are philanthropists but because we have developed products and services that address these needs. We have been successful through our willingness to accept lower short-term returns on investments in favor of more substantial long-term opportunities.

Our programs cover a wide spectrum including inner-city plants, education and training, helping small businesses and prisons, and urban and rural revitalization. We work in the toughest environments. My written statement describes these activities in greater detail. This morning I will mention just a few of our initiatives very briefly.

Our first program was the successful establishment of plants in five poverty-stricken inner-city communities, with a total employment which now exceeds 2,000 persons. By working closely with local community-based organizations and with government funds for training, Control Data has succeeded in making distressed-area plants profitable at a level competitive with conventional operations.

The only practical way to make significant progress in addressing the massive and urgent need for better, less costly, and more available education and training is through the use of advance technology. For 19 years Control Data has been involved in developing such a system, in cooperation with other organizations, called Plato Computer-Based Education. After the initial expenditures of approximately $22 million in government funding, Control Data added in excess of $850 million to expand the development.

Utilizing this technology, Control Data now operates 33 vocational schools, called Control Data Institutes, which graduate over 10,000 students annually in computer-related jobs, with a replacement rate of about 90 percent. Incidentally, a typical Control Data Institute provides an after-tax return on equity of approximately 25 percent.

In cooperation with the public schools and CETA, more than 50 of our Fair Break Program centers use Plato Computer-Based Education to deliver innovative training in basic skills, job readiness, life management, and job-seeking and job-keeping skills to disadvantaged persons. Of the 5,000 students in Fair Break, 93 percent have advanced to further training or to a job. Our 6-month followup studies show that 73 percent of those with jobs are still employed.

To address urban needs, Control Data has joined with other companies and with two church organizations to form a consortium called City Venture Corp. Since this subcommittee has already had extensive testimony earlier on City Venture, I will simply say—to give you some indication of the highly positive impact of a City Venture project—that in Toledo's Warren-Sherman neighborhood, $22 million from the public sector will generate 2,000 new jobs. This is an average cost of $11,000 a job.[1]

The need for rural development has been approached through another consortium called Rural Venture. Rural Venture aims to increase the productivity and profitability of small farms; to assist in the startup and profitable growth of small businesses in rural communities; to help deliver significant advances in health care, education, housing, and communications; and, in the process, to create jobs and improve the economic base of the depressed areas.

To illustrate, Rural Venture recently completed a 9-month contract with the Virginia Private Industry Council to develop a plan to create 1,500 private sector jobs in a 10-county area over the next 5 years. Government funding needed to complete the project is about $4.5 million, which translates into an average cost of $3,000 per job created.

In conclusion, I will simply say that these examples of programs provide a perspective on how business, in cooperation with the government and other sectors, can better address unmet societal needs. None of these programs have been easy. We have taken the initiative and pressed for government participation. Often this has been done in an atmosphere that is nonsupportive even of the concept of businesses making money at all—let alone profiting, even moderately—from delivering public services.

Because most businesses insist on immediate bottom-line approaches, we are often looked at skeptically by Wall Street, other companies, and nonprofit organizations. It is our fundamental belief, however, that unless the free enterprise system can adequately address our country's pressing unmet societal needs, it is simply going to lose its license to operate, or it is going to be squelched by the advancing deterioration of the quality of life.

Thank you.

Senator DURENBERGER. Thank you very much, Bill.

Dr. Schultze, shall we start with you?

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[1] See article on p. 289.

CHARLES L. SCHULTZE [MEMBER, REVIEW PANEL], SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. SCHULTZE. Let me start with two questions. Since both of them are going to sound adversarial, let me start by saying that I fundamentally agree with the thrust of what you are saying. If you can figure out a way to make a buck out of doing socially good things, that is precisely what we need. So I am all for that. In fact, someone might say anybody can make a silk purse out of silk. If you can get greed—now that is a terrible word—get greed to serve social purposes, you are harnessing tremendous human motivation, and probably making a silk purse out of a sow's ear. [Laughter.] That is really something we need to do. So I fundamentally agree with you, but I have two problems.

One, just to be provocative: There are a lot of areas in which we, as a society, do carry on social services, with a mix of public not-for-profit and for-profit institutions—hospitals, nursing homes, day cares. At least nothing I know tells me that, in those cases, the for-profit does any better than the others. They don't do any worse, I don't think, but they don't do any better. There were some experiments, I think in Oklahoma, in contracting out some of the schools. You suggested that. Again, that experiment may have been too small and not carried on long enough, but it didn't seem to show anything.

My question is—and I suspect this is something that nobody has gotten their finger on yet—how to define and determine the kinds of contracts you can write. and how to define public services to make sure you can harness the private sector. It isn't just by letting contracts to private sector.

My second question is not so much a question as it is an observation, in a way. While the approach you talk about can possibly do things more efficiently in some areas, fundamentally the contract money has got to come from the public trough. I mean, those moneys have to come out of taxes. So, it seems to me, while the approach you suggest makes a lot of sense in terms of doing things more effectively and efficiently, it probably does not have very much to do with replacing the very scarce budget dollars, which are getting scarcer and scarcer and scarcer for communities and social securities.

In summary, therefore don't we have to do more than simply contract out with private business? We are already trying to do that in a number of areas. We have a for-profit business and they often don't run it any better than the private sector. Second, will this really be a substitute for budget dollars?

Mr. NORRIS. I agree with what you are saying. Just to let a contract would probably not produce better results. We could let a contract which would define objectives—like in operating the schools: To graduate some students who are not functionally illiterate—for a change, and pay on that basis. The matter of recidivism is extremely serious in the prisons. We could make a contract based on the results you get in that area. So, the answer is "Yes, I agree."

Now I am not just suggesting contracting with the Federal Government. I am suggesting that other initiatives could be taken by businesses. For example, I have already cited that Control Data is operating a large vocational school. Today, schools are starting up at the rate of 100 a week—many of them by nonprofit organizations, churches, and so forth. I think that is unfortunate because, again, the major resource for doing this sort of thing is business. There are a few private schools, and you will see a larger number of private schools being operated by businesses. If there was a closer relationship, where a business had some incentives to do that, it would be much more effective.

I also cited the example of urban revitalization. I used the word cooperation over and over again. When we established our inner-city plants, we took the initiative. It wasn't a government initiative. But believe me, it was a cooperative approach, with the government and the city of Minneapolis. We received fine support all the way around. It worked very well. It is a pattern that we replicate over and over again.

In the case of City Venture—yes, it takes substantial government funding. However, we are getting a leverage there which is many times the Federal funds, because businesses took the initiative.

Mr. SCHULTZE. Could I pursue that a little bit further, just to be maybe a little argumentative?

It seems to me one of the essential problems we are dealing with is that it is very, very difficult to define your objectives in social programs. When you sell an appliance with some qualifications—basically, you don't have to have anybody in society writing the specs for what is a good appliance. Millions and millions of consumers ultimately tell you by the sales. However, you can't sell good prison results in a market.

I am being argumentative only to draw this out. While I agree it is very difficult to write it—like "What is the output of a good school?"—in a way you can contract for it. Again, if I can sell that output in the market, I don't have to write specs. Ultimately, if enough people are doing it, the better ones will succeed and the market will work; and, in other cases, it won't.

If I were on your side, I don't know how one would answer the question. It isn't really a question; it is an observation. The essence and the very important part of this is to be able to know, as a society, very precisely what we want in terms of social services. It turns out, once you start to think about it, to be terribly complex.

You can set up the wrong incentives in the contracts by the way you word it. The Soviet Union had a factory for nails, based on poundage of nails. Boy, was that factory great at turning out a small number of large nails. That didn't work, so they put it in terms of the number of nails. They changed the quota. That factory then was incredibly good at turning out a very large number of very small nails.

You have to be very, very careful in this—not to set up incentives that do things that you don't want done. For example, you could set up a school system in terms of its incentives. The payoff could be based on a kind of test scores in reading, writing, and arithmetic—that is what you get paid on. That might be good; however, I am not sure what the impact would be.

Senator DURENBERGER. I don't know what Bill will say in that context. However, we talked about this on the first day. You were on the panel, Charlie. In that context, the answer is that you have people lined up outside your door trying to get in to get your educational product. It doesn't necessarily have to be test score measurements or any of those kinds of things. Everybody wants your product and they don't care whether you are making a profit or not. They are there wanting your product.

Mr. NORRIS. That is part of the answer. Just referring to prisons, you know that the system is so bad that there is no marketing job there at all. They are desperate. [Laughter.]

A better answer, though, is jobs. The output of a school: a kid gets a job. The output, the bottom line in urban revitalization and rural redevelopment: jobs. How many jobs did you create? If you create jobs, if you get young people jobs, you don't have to worry about the other objectives to any great extent.

Mr. SCHULTZE. Have I taken too much time? I want to pursue this one more step.

Senator DURENBERGER. Can you do it in 1½ minutes?

Mr. SCHULTZE. Yes.

Simply again to suggest how difficult it is: You have the creaming problem. My recollection is that many years ago the employment service used to be fairly good at getting jobs for those who could get jobs anyway. So, again, you have to write some kind of specs so it is what the school adds to getting a job, and you don't cream off the people who can get jobs easily. I am not saying that it can't be done.

Mr. NORRIS. I am talking about the disadvantaged.

Mr. SCHULTZE. Then you have to write the specs very carefully in terms of who are the disadvantaged. If your profit depends upon your success, the more you will bend those guidelines. You would take in people who can make it anyway.

Mr. NORRIS. That is right. Going to the inner cities, you have no problem in identifying the disadvantaged. They are all of them, virtually.

Senator DURENBERGER. Verne?

VERNE C. JOHNSON [MEMBER, REVIEW PANEL], VICE PRESIDENT, GENERAL MILLS CORP., MINNEAPOLIS, MINN.

Mr. JOHNSON. Since Charlie has taken the prerogative of coming very close to making a conclusion or a speech rather than asking a question, I would like to add a dimension to that before we leave it. There are two observations I would like to make on that, dealing with my experience. The first is that everybody worries these questions to death, not thinking about what is happening now. I pose this question: If it is so difficult to write all these specs and let out these contracts, I must say "What in the world are we doing now?" If our policy officials don't know what they want now, why are we going to get better performance by having public servants doing it rather than by contracting it out? The problem then, apparently, is that our policymakers don't know what they want. If that is the case, we have a very serious problem which really has little to do with private delivery service or public delivery service. We had better get at that problem, if we really don't know what we want in the way of delivering those services.

I would like to change the subject a bit and ask you, Mr. Norris, this question. It comes out of Charlie's original question. Many in business cannot see a competitive return in many of these fields. Yet you are suggesting, and I fully agree with you, that businesses have to be more involved in the major areas of this country's growth, which would include many of these service sectors.

Allow me to put into the record the General Mills alternative, so that we can see how you would react to it.

Our feeling at General Mills is that many of these areas do not lend themselves to a normal commercial return. Then you have the question "How can you best do something out of your philanthropic approach?" At General Mills we do it by committing 2½ percent of our pre-tax profit per year, which compares to .82 percent average for a large corporation. Most corporations are using a single alternative—that of giving its money away to charitable organizations to do this.

About 7 years ago at General Mills, we decided that the corporation ought to put its own financial strength and its management competence to work in this area—such as what Mr. Norris is suggesting—but in areas where we could not see a normal commercial return. So we set objectives for trying to find some unique demonstration of high social priority that would have a multiplier effect if successful, and that would be financially selfsustaining. In other words, it would not, hopefully, lose money; but it would not be expected to return a full competitive return. We would take the difference, either if it did not make money or didn't get the competitive return, out of our 2½ percent philanthropic money. The rest would be just pumped in, in a business sense.

We picked an inner-city neighborhood in Minneapolis near downtown with multiple dwellings, a relatively low-income rental type neighborhood. The objective was to go in, buy about half of those properties, rehab and rent them. We would stabilize that neighborhood through a number of strategies.

Over a period of about 5½ years we put $9 million into that neighborhood. We did essentially accomplish a stabilization. When we reached the point where the arrangement was now one of stable management—a rental agency—we were no longer interested, because it ceased to be a unique demonstration. So we have been in the process of trying to divest that particular project, the about 740 units that we bought. We have successfully done that now.

Over the next 8 years we will receive about $7.5 million back, so we lost money. It was not a good profitmaking venture. However, our management was sufficiently impressed with what it did for the community that we have now committed ourselves to reinvesting that $7.5 million into another project or two which have those same characteristics.

So you see, Mr. Norris, in this sense we did not set out to, nor did we, make the normal commercial return. We did, however, and do now have essentially a stabilized neighborhood. We have had some multiplier effects in that neighborhood. We now have $7.5 million coming back which can be, and will be, reinvested in some other unique social demonstration.

Basically then the question comes down to this: If we can get corporations to either do it the way you are suggesting, or to do it with these lesser returns, it seems to me that the multiplier effect can come closer—not close, but closer—to narrowing some of this financial gap.

My question would be this: Suppose that one of your programs clearly becomes one where you see you cannot make the commercial return that you expect from your other businesses. Would you then drop that business; or, would you consider continuing it on something less than a return, and perhaps taking that difference out of your charitable contributions?

Mr. NORRIS. I think there is a factor here which has been omitted—that is, the cooperation and support of the government. Control Data does not go into these programs alone. In most of them we could not get a reasonable return without the investment of some government funds. All of these problems are gigantic. It takes great resources. It takes a long time. You must have the government involved. By leveraging the government funds, then you can get a good return.

The major problem is the length of time it takes. I am not against the kind of program you are talking about, but there aren't very many companies that are in a position to do that. Now, on the other hand, the smaller companies can participate in consortium organizations. There are trillions of dollars out there in our society. If just a small fraction would be invested in consortium organizations that in turn would leverage—cooperate—with the government, we could make enormous progress on all of these problems.

Senator DURENBERGER. Brian?

BRIAN O'CONNELL [MEMBER, REVIEW PANEL], PRESIDENT, INDEPENDENT SECTOR

Mr. O'CONNELL. Like Charlie Schultze, I am concerned about some aspects of it; but also like Verne, I am aware that we tend to dive into the area with a question and don't take enough time for the recommendation.

I must say I have followed the Control Data program for a number of years. It is just absolutely inspiring. I would like to use this opportunity to congratulate you, and all those concerned, for the efforts you have made in this very unique and successful way of fulfilling public responsibility.

The area of concern I have is that we not exaggerate what profit-making organizations or voluntary organizations can do. I think the whole thrust of this forum has been to encourage options, alternatives, and innovation. In the course of that, though, we should not assume that by following any one, or a few of these, we have found a new answer to a public service delivery system.

It has been my experience, in working with stroke patients for example, that there are a lot of institutions willing to compete for the stroke patient in the initial weeks of the episode, but very few who want to get involved in the long-term rehabilitation or care of the stroke patient. This is similarly true of the schizophrenic patient. What has happened in the past is that those issues easiest to deal with tend to get a good deal of competition. Then we leave to the public system the tough, unprofitable ones. In years past, that led to the two different systems of care—one for those who could afford it and the public system for those who could not. Those public hospitals were hardly models of sensitivity and effectiveness.

My point really is to commend Control Data, but not to let those of us, who are examining how to develop a public system with all of its options, to be led to think that by tapping into the marvelous creativity of the market place we will find the answers to the delivery system.

Mr. NORRIS. Thank you very much for the complimentary remarks.

There is something like 13½ million handicapped people out there. Half of them can't work at all. Of course, the most difficult are the schizophrenic and other emotionally distressed people.

On the other hand, the resources for addressing those tough problems are in the business sector. They are not in the public sector. Now I am not saying that businesses can do it all. There are a lot of important resources in the nonprofit organizations which are needed. You have to work together. The bottom line is that there is a job.

You can frame a program through tax incentives. A lot of people will throw up their arms and say you can't control such a system, but that is not true. It doesn't require a bureaucracy. It is straightforward. Through a system of tax incentives, you can address the very toughest of these: handicapped assistance. However, you have to have the will to do it, and you have to be willing to put in place some visionary and some daring legislation.

I will cite some previous examples where this country has done that with tremendous results. The Morrill Acts which created the land-grant colleges was addressing a similar problem; and there was the GI bill.

Now, Senator Durenberger, it would seem to me that Congress, with all of our past experience, could fashion some equivalent legislation which could really address the problems of the disadvantaged and the handicapped—just to select a few.

Mr. O'CONNELL. In fairness to our fullest possible orientation, I do have to acknowledge that such legislation is likely to call forward public appropriations also. So, like Charlie, I see this as perhaps a different way of performing public services—and, in many cases, perhaps a better way—but I am not persuaded that it would be much of an answer to the budget crisis.

Mr. NORRIS. We would have to go into a discussion on this. I am talking about tax incentives to reward corporations appropriately for getting people into a job. It can be done. We are doing it.

Senator DURENBERGER. Mel?

CHARLES M. GRAY [MEMBER, REVIEW PANEL], PROFESSOR OF ECONOMICS, COLLEGE OF ST. THOMAS, ST. PAUL, MINN.

Mr. GRAY. I have had the opportunity to supervise one or more of Control Data's case studies. You have taken some tremendously exciting approaches in discovering and entering new enterprise areas.

One of the questions which keeps arising as we pursue this is whether or not, as a pioneer, you find that this might hinder your ability to compete in the marketplace in your more established lines of enterprise. That is to say, do you find that you may have to, for some period of time, subsidize new enterprises with your more established areas? If so, does this hinder you? Would this likely hinder other firms that would contemplate following the example you have set? How do you keep your stockholders happy?

Mr. **Norris**. It hasn't been the stockholders who have caused us problems. It has been Wall Street. Our stockholders gave us support way back, primarily because they agreed with the program. They were willing to wait. It was Wall Street and the financial world that put most of the pressure on us.

Sure, they are long-term programs. On the other hand, how else are you going to build a solid, enduring business? You can't do it by having to get a return in 2 years on every investment you make, which is what they teach you in business school. I think our business schools are at great fault here. Our whole culture is being driven by this instant gratification thing. We have to take the longer range point of view. One of the most exciting parts of my life is to learn that the stockholders, once they understand, agree and will be patient. If they will do it, if Control Data stockholders will do it, stockholders of any company will do it. But there has to be leadership.

Senator **Durenberger**. Let me make one observation that harkens back to my opening statement. This idea of the public role takes a variety of forms. You talked about leveraging, if you will, of public moneys in the form of grant programs and so forth. You talked about the importance of tax credits, which is another form of leveraging. Basically you have been in support of—I might not necessarily have been—some of the enterprises' own suggestions which incorporate an additional element like regulatory relief. Your example of the homework program talks about the disabled. That is how we tailor some of our entitlement programs, in this case the medicaid program, to provide that extra incentive for the basically disabled persons—in particular, to find a job in the home and not lose some of their traditional resources.

My point is that the role of the public sector—and what you think is an appropriate role for businesses—could take a whole variety of forms, given the particular need which is involved. We are not just stuck with your bringing some money and the government bringing some money to the table. That is important to keep in mind.

Let me ask you one question, Bill, which relates to your other role in business. You have spoken about your role in producing a product or a service for a profit. There is another important role that you play about which we all care. That is your role as an employer of people.

While we are in the process of cutting Federal appropriations, balancing the budget and so forth, it seems that there is an opportunity for businesses in America, as employers of people, to step into such areas as energy conservation, the work shift for employees, health care—the whole health care area of giving people greater opportunities for choice in health care—education, counseling, and preparation for retirement. There are areas where tremendous opportunities exist for the business entity when it puts on its "employer of people" hat.

I wonder if you would comment briefly on that.

Mr. **Norris**. Yes. I guess you stated the case very well. I agree with it. We find that, aside from the human benefit, there is also the monetary benefit.

We have a service called the Employee Advisory Resource, which is a private, confidential service. If a person has a drug problem or some other problem which he is reticent about exposing to a supervisor or his friends or even his family, he can call this confidential number and get help. That program alone—again, now, aside from the enormous human benefit it has added—has saved the company $10 million every year since it has gone into widespread usage.

We have also started a program which we call Stay Well. Its purpose is to teach people how to avoid illness. Again, while it is only in its early stages, I am absolutely convinced that, in addition to the great benefit the employees are going to derive from it, the company will benefit handsomely at the bottom line.

Senator DURENBERGER. Thank you very much.

Any last comments from anyone?

Thank you. It has been a pleasure having you here.

Mr. NORRIS. Thank you.

[The prepared statement of Mr. Norris, with attachments, follow:]

PREPARED STATEMENT OF WILLIAM C. NORRIS

PROFIT-DRIVEN RESPONSES TO SOCIETAL NEEDS

Mr. Chairman, members of the subcommittee, I am pleased to join you this morning to talk about new ways of delivering social services.

Relying on public programs to meet many of our societal needs has not stopped the near disastrous decay of our inner cities or our poverty-stricken rural areas, not alleviated shamefully high levels of disadvantaged youth unemployment, and not changed an unresponsive educational system and antiquated, overcrowded prisons—all conditions compounded by already overburdened government budgets.

This sad state of affairs exists because we do not utilize the major source of technical, managerial, professional, and financial resources, namely, the business community.

We need fundamental change where business takes the initiative in partnership with government and other sectors to address societal needs as profitable business opportunities. More specifically, I am proposing that government contract with businesses to operate public schools and prisons and provide incentives to get disadvantaged youth into meaningful jobs. Moreover, in cooperation with government, big business can help assure the successful startup and growth of small business, which is the principal source of net new jobs, and also fashion realistic programs to revitalize distressed urban and rural areas. Such a new partnership can deliver the same services for less, or more effective services for the same.

Reagan program

Change is more urgent now than in the past because President Reagan's proposals reduce federal support for many human and economic development programs. Even in the unlikely event that those federal dollars could be replaced with state and private funds, the results at best would be maintenance of the status quo—no improvement in our social condition. Currently, there is much discussion on how the private sector should respond to the decreased federal role. The prevailing view is that corporations should increase their charitable contributions. Already, non-profit organizations are invading corporations in record numbers with requests for more philanthropy, more loaned executives and in-kind services.

But the gap to be bridged is just too great. For example, in fiscal 1982, government financial support for the programs administered by non-profit social organizations will be reduced by about $20 billion. By 1984, this public service gap may be as much as $90 billion. Private giving, therefore, would have to increase almost 150 percent between 1980–1984 just to make up for inflationary impacts and federal spending cuts. But during the past five years, private giving increased only 38 percent—a rate lagging well behind inflation.

For a number of reasons, it is unrealistic to expect that businesses and foundations will increase their rate of giving nearly four-fold to make up the anticipated shortfall. First, there are no incentives in place for increased charitable giving. At the same time, business is under enormous pressure to allocate more funds to increase productivity, to fend off growing foreign competition, and to offset the ravages of inflation, while improving earnings.

It is also not realistic to expect a substantial replacement of federal dollars with state funds because of strong negative reactions to tax increases. Therefore, the only answer is a new public-private approach which focuses on profit-driven initiatives by the private sector.

Business naturally gravitates toward meeting challenges where there is opportunity for profit. It is no surprise that the pressing unmet human and economic and development needs I have mentioned are not high on the list of current business priorities, since federal and state governments have not encouraged business to apply its considerable resources to these areas.

While not widely perceived, this profit-driven approach is no mere dream. For many years, my own corporation has known it to be reality. We have operated successful programs—carried on in cooperation with many other organizations, both public and private—that address society's unmet needs as business opportunities, not because we are philanthropists, but because we have developed products and services that address those needs. We've been successful through our willingness to accept lower short-term returns on investment in favor of more substantial long-term opportunities for growth and industry and to use, creatively, limited government support.

Our programs cover a wide spectrum including inner-city plants, education and training, helping small business, prisons, and urban and rural revitalization. We work in the toughest of environments. I will mention just a few of our initiatives.

Inner-city plants

Our first program was the successful establishment of plants in five poverty-stricken inner-city communities, with a total employment which now exceeds 2,000 persons. By working closely with local community-based organizations and with government funding for training, Control Data has succeeded in making distressed area plants profitable at a level competitive with conventional operations.

Education training

The only practical way to make significant progress in addressing the massive and urgent need for better, less costly, and more available education and training is through the use of technology. Television, audio/visual tapes, telephone and satellite transmission coordinated in a network learning system with computer-based education, offer cost effective, jobs-oriented training never before available.

Control Data has been engaged in developing such a system, called Plato Computer-Based Education, for 19 years. After initial expenditures of approximately $22 million in government funding, Control Data added in excess of $850 million to expand Plato offerings, by working with more than 40 universities and hundreds of courseware developers.

Utilizing this technology, Control Data Corporation now operates 38 vocational schools (called Control Data Institutes) which graduate over 10,000 students annually in computer-related fields with a job replacement of 90 percent. (A typical Control Data Institute provides an after-tax return-on-equity of approximately 25 percent.)

In cooperation with public schools and CETA, more than 50 of our Fair Break Program centers use Plato Computer-Based Education to deliver innovative training in basic skills, job readiness, life management, and job-seeking and job-keeping skills to disadvantaged persons. Of the 3,500 students in Fair Break, 83 percent have advanced to further training or a job, and our six-month followup studies show that 73 percent of those with jobs are still employed.

Still another training and jobs creation effort is our ACET program—a unique Department of Labor contract awarded to Control Data in 1980 to provide training for 300 disadvantaged youths and guarantee the employment of 100 at our own facilities. Training costs were not inexpensive, but considering that 100 hard-core unemployed youth are now beginning jobs paying from $11,000 to $19,000 a year, the program is a bargain for the government. Within five years, the taxes paid by these employees will more than cover the government training costs, and it's a good bet that these individuals won't be back on the streets or on welfare.

In schools and in prisons, our basic skills and high school skills curricula are designed to help underachievers advance from a third grade to an eighth grade and eventual GED equivalency in reading, language, arts, and math skills. In inner-city Baltimore, for example, 24 functionally illiterate adults advanced almost one full grade level in reading after only 22 hours of instruction. Another group of 200 students in Florida achieved an average advance of one grade level after only 14 hours of terminal time.

Small business

Although about half of all private sector jobs are in small business and most net new jobs are generated there, the environment for small enterprise has been deteriorating because of increasing competition from large companies and decreasing availability of capital.

Control Data offerings for small business development include financial, data processing, training, planning, professional consulting, and technology-transfer services. We have also established a network of unique business and technology centers, which provide various combinations of consulting, shared laboratory, manufacturing, and office facilities and services for facilitating the startup and growth of small firms. Such enterprise development is vital to the process of urban and rural revitalization.

City and Rural Ventures

To address urban needs, Control Data has joined with other companies and two church organizations to form a consortium called City Venture Corporation, an efficient pooling of the resources of individual member organizations. City Venture plans and manages innovative programs for the revitalization of urban centers. Since this subcommittee has had extensive testimony earlier on City Venture, I will simply note, to give you some indication of the highly positive impact of a City Venture project, that in Toledo's Warren-Sherman neighborhood $22 million from the public sector will generate 2,000 new jobs—an average cost of $11,000 a job, a small price to pay for this significant return.

The need for rural development has been approached through another consortium, called Rural Venture Inc. Participants include businesses, church organizations, farm cooperatives, and foundations. Rural Venture aims to increase the productivity and profitability of small farms, to assist in the startup and profitable growth of small businesses in rural communities, to help deliver significant advances in health care, education, housing, and communications; and, in the process, create jobs and improve the economic base of depressed rural areas.

To illustrate, Rural Venture completed a nine-month contract with the Virginia Private Industry Council to develop a plan to create 1,500 private sector jobs in a ten-county area over the next five years. Government funding needed to complete the project is about $4.5 million, which translates into an average cost of $3,000 per job created.

Conclusion

While these are only examples of some projects Control Data has initiated with the support of government, they provide a vision of how the public sector can provide incentives for business to address societal needs. None of these programs has been easy. But, in all cases, we have taken the initiative and pressed for government participation, often in an atmosphere that is non-supportive of the concept of business making money at all—let alone profiting, even moderately—from delivering public services. Further, because most businesses insist on immediate bottom-line approaches, we are often looked at skeptically by Wall Street, other firms, and non-profit organizations. It is our fundamental belief, however, that, unless the free enterprise system can adequately address our country's pressing social and economic development needs, it will lose its license to operate or will be squelched by the advancing deterioration of the quality of life.

[From "The National Employment & Training Scene" (formerly The National CETA Reader) Vol. 5, No. 6, June 1981]

CETA-PRIVATE SECTOR PROGRAM A 95-PERCENT PLACEMENT

A federally-funded Control Data Corporation training program has trained and placed 57 entry-level computer technicians for 33 Los Angeles area companies.

Sponsored by the Los Angeles County CETA, the program began in March 1980 and all 60 persons participating in the program at the Los Angeles Control Data Institute completed the program successfully. Fifty-seven have obtained jobs with salaries ranging from $11,366 to $15,600 per year. Three still are seeking employment, aided by the Institute's placement staff. All the participants were economically disadvantaged based on federal qualifications. They included 14 Asians, 20 Blacks, 5 Hispanics, 11 handicapped persons, 11 veterans and 6 female heads of households. A quarter of the participants were women.

The Institute offered a standard computer technician course in which about 45 percent of the coursework involved the company's PLATO computer-based educational system. Control Data recruited, tested and counseled the participants prior to the training. Institute director Barbara Jackson stated that the 95 percent placement rate is a tribute to the participants' competence and personal motivation. She said, "Given an opportunity to master job skills, each individual made the necessary effort in order to be a more productive member of the community and the data processing industry."

This is the second year in which the CETA program was given. In 1978–79, 93 participants were placed in private industry at an average salary of $13,500. The Institute called for full payment only when students completed training and were placed in unsubsidized jobs.

THE TOLEDO TRUST CO.,
Toledo, Ohio, July 23, 1981.

Mr. WILLIAM C. NORRIS,
Chairman, Control Data Corp.,
Minneapolis, Minn.

DEAR BILL: I know by the time you receive this letter you will have been advised of the announcement in Toledo this week and may have already read the enclosed editorial.

The visit by Governor Rhodes went well, as you can see from the editorial, and you and your organization are to be commended. The future looks good.

Sincerely,

GEORGE W. HAIGH,
President and Chief Executive Officer.

Enclosure.

[From the Toledo Blade, July 23, 1981]

CREATING JOBS

That state grant of nearly $300,000 for a program at Scott High School designed to open up more youth employment in electronics underscores the growing importance of the redevelopment efforts now unfolding in the Warren-Sherman area.

At the heart of those efforts is the $8 million commitment by Control Data Corp. to remodel the old Toledo Factories Building which has been transformed into an impressive-looking structure that, it is hoped, will house many small business establishments interested in sharing myriad high technology services—word processing, data processing, computerized information systems, accounting, and financial planning programs. The firms would pay for these services but at a lower cost because of the sharing arrangement.

The more significant long-term aspect of Tuesday's announcement is the debut in this city of Magnetic Peripherals, Inc., which will establish an electronics assembly plant in the project area in connection with the Control Data center and the Scott program. Magnetic Peripherals—jointly owned by Control Data and Honeywell—is a major manufacturer of computer wire components and is expected to increase employment from an initial 100 jobs to around 300 in time.

This, in short, brings a new industry to Toledo, a new company, and a new technology that will very likely spawn more growth in the computer field.

To reinforce what Control Data will be bringing on stream in its computer operations center, the state is willing to help finance a program at Scott that will range from remedial reading and mathematics to instruction in computer operation and maintenance. The aim is to turn out trained young persons who can fill many of the jobs that will be created in Warren-Sherman by the firms doing business there.

Governor Rhodes, who toured the area Tuesday, pointed out that the project will provide not handouts but jobs. A senior Control Data vice president expressed similar sentiments earlier when he said, "The pressing issue of the day is finding jobs for people. We start there. Before any other rehabilitation can work, we feel people need to have worthwhile employment."

Along with new jobs, the Warren-Sherman developments have already brought new housing, a proposed neighborhood shopping center, scheduled new facilities by Owens-Illinois and Libbey-Owens-Ford, and improvements in the general neighborhood. And it is noteworthy that all of this is occurring at a time when the local economy is not yet in high gear.

This is important in a corner of the city that has had its share of blight and which is located right at the edge of that section of downtown Toledo now undergoing a remarkable renaissance.

The state department of economic and community development is to be commended for its foresight in providing funds to implement a valuable program at Scott. It will now be up to Toledo public school officials and other local leaders to keep the momentum going that has been sparked especially by the leadership of Control Data.

Senator DURENBERGER. Next we have a panel.

Perhaps, the group that is most affected by our changing governmental policies on public service delivery will be those men and women who establish and carry out policies at the local level. We will hear now from three elected officials who have already begun the process of creating alternative public service delivery systems.

First is Mayor George Latimer. George has been the mayor of St. Paul since 1976. He has guided that city into an exciting period of growth and revitalization, primarily through his ability to bring private sector involvement into city hall.

Randy Johnson has been a member of the Hennepin County Board of Commissioners since 1978. Hennepin County has made contracting out almost a tradition. The county uses private vendors for day care, mental health and chemical dependency services, correctional alternatives, homemaker services, and many others.

Third is Nancie Crabb, councilwoman with the Jacksonville-Duval Council. Nancie has been a member of the council since 1975. She was part of a Governor-appointed commission established in 1966 to develop plans for a new government form, now called the Consolidated Jacksonville. In 1968, the city government of Jacksonville merged with Duval County to become the Jacksonville-Duval Council. Since that time considerable strides have been made in the community toward streamlining public services through public-private cooperation.

Unless you want to go in a different order, we will start with George Latimer. We welcome you at this time.

TESTIMONY OF GEORGE LATIMER, MAYOR, ST. PAUL, MINN.; NANCIE S. CRABB, COUNCILWOMAN, JACKSONVILLE-DUVAL COUNCIL, JACKSONVILLE, FLA.; AND RANDY JOHNSON, COMMISSIONER, HENNEPIN COUNTY BOARD, MINNEAPOLIS, MINN.

Mr. LATIMER. Good morning, Senator, members of the panel, ladies and gentlemen. It is a great opportunity you have afforded us. When I think of the number of times I have appeared before you and other distinguished groups in marble-lined rooms in intimidating sessions, it is really great and refreshing to be invited to this intimate opportunity for dialog.

The timing is particularly good—not only because of the reminder we received yesterday by the vote in the House and the Senate on taxes—but in St. Paul, just before I got on the plane, I wrapped up my budget for 1982. Now that I have seen what you have done and I have seen what I just did, it is time to talk about alternatives, because I am sure that I am not going to be able to do it. [Laughter.]

I really have enjoyed listening to this dialog. I am going to shorten my remarks. I, of course, know that you will include my prepared remarks for the record. I would like to keep my remarks brief because I think the exchange is profitable and because it is also more fun.

A couple of general remarks have been made already. Before we get into what I think is an exciting, yet unexplored area, the magnitude of which we don't know—and that being, how do we deliver services differently, better, more humanely, than we have through traditional government bureaucracy—we must remind ourselves of the tough policy judgments, philosophic judgments if you will, which reflect themselves in the debates in the national Congress and in the halls of our legislatures and city halls all over the country.

We, as a people, are never going to be able to escape the first major analysis—which is, what does it mean to be in a place together, calling ourselves a Nation? What does it carry with it with respect to obligations to one another? Just what level of effort are we prepared to make, as a people? In fact, do we indeed, as a people, have an obligation to share our strengths with those who are less strong?

That kind of rhetoric we hear all the time. The fact that we hear it all the time doesn't mean that it is not the right question. And, that is not to presume that my answer might be your answer but, rather, that the question has to be asked, so that we do not confuse interesting discussions about federalism, volunteerism, or privatization with a more fundamental issue—that is, as a people, what are we prepared to do? It seems to me we need some kind of consensus on that. That is the first question. Then, beyond that, you get into the question of how to best deliver those benefits or to share those benefits or resources.

I had a very interesting meeting not long ago with Teddy Kollek, who was a Socialist for many years; with Ben Gurion; with the mayor of Sydney, Australia, who is also a Socialist; and with other mayors of similar backgrounds. It is interesting, and I think it is important, that people of every political persuasion in this country recognize that throughout the world local officials are questioning the traditional methods of delivery. It is not simply a question of whether one cares more than another. A lot of traditional, big government type people are stepping back and saying that our objectives are still the right ones, but there is something wrong in the way we have been delivering them.

I think the discussion here—as highlighted in the remarks by Mr. Norris about just where are we today in education, particularly for those who are disadvantaged—is appropriate. I think what you are doing is probably going to ultimately be much more important than many of the things we read about in the headlines.

In St. Paul, we have done a number of things, and they have been set out in the paper. I think that Anthony Downs, in his opening remarks to you on your first day, made a very good point. In St. Paul, we got out of the garbage business 1½ years ago. Besides a lot of interesting debate for my own political posture, it put me on a somewhat different basis with my friends in the unions than my previous 15 years of cordial relations had led me to hope. There were fundamental decisions to be made, so we made them. We moved out of the garbage business. There is really no great philosophic basis for getting out of the garbage business. As a society, we cannot be in favor of garbage. We have to be in favor of getting rid of it. We made a judgment, and I think it was a sound one. It was really an entrepreneurial kind of judgment. I said it is costing too much—way too much—and it would be better to have competing, smaller, private entrepreneurs providing the service than a single monopoly—whether public or private, I might say.

As it turns out, an interesting thing occurred. All I was trying to do was save money. I didn't expect to save the republic singly by getting out of the garbage business. Having done that, one of our neighborhoods around the Macalester College, called Tangletown, organized themselves and with our technical help negotiated with the garbage haulers and saved 25 percent on the standard rate which the garbage haulers had been charging our neighborhoods. I think that is very interesting. I would suggest that it is also helpful in, perhaps, a more profound way.

There are many other examples, but I want to close my remarks now, unhappily enough, on the subject of garbage. It is important to note—and I have 100 other examples—that a group of people, in solving an economic problem, in fact have brought to themselves more sense of control over their environment and more sense of companionship with the people within the community. They have created a coalition of people instead of desperate groups of people or individual homeowners. In fact, they have gathered together for that purpose.

There will be lots of other purposes to gather for, and they will continue to do that. I think that that notion—and I am not arguing that small is always more beautiful—in an increasingly massive society, with the great risk of alienating our citizens, that the opportunity to get your hands on a problem yourself in a neighborhood is very strong. Those mediating organizations—neighborhoods, families, private associations and foundations—I think, can be the great conduits between the traditional bureaucratic delivery system and the people who need the service and want to be involved in the delivery.

There is a lovely quote on which I will close. It is not a ringing quote, but I think it is nice. It is from a book which I would commend to you. In fact, I would even give it to you. Senator, but I have already told you about our budget problems in St. Paul. [Laughter.] It is called "To Empower People." It is written by Peter Burger and Richard John Newhouse. They quote Edmund Burke, relative to smallness in delivery systems, which I think we can involve ourselves in from mental health on down. He says, "To be attached to the subdivision, to love the little platoon we belong to in society is the first principle of public affection."

It is a lovely phrase. I am going to keep looking for ways of using it because I think it can be helpful in making more personal, more humane and more effective delivery systems in our country.

Senator Durenberger. That was a great recovery from garbage. [Laughter.]

Ms. Crabb?

Ms. Crabb. Thank you. I agree with the mayor. This is quite exciting for us today, to be in this room and to also know that people at the Federal level are interested in what we have to say and are attentive. We appreciate this opportunity.

I do have a prepared statement which I would like to have entered into the record. I will sort of skip through some remarks.

Senator Durenberger. All of the prepared statements today will be made a part of the record.

Ms. Crabb. As I said, these hearings are timely. They also serve a dual purpose. I am sure that they educate the witnesses as well as the panel.

I know you have heard a lot of people during these last 2 days of hearings. Their testimony has been filled with a lot of suggestions. I hope that all of this will get as wide a circulation as possible, through the various agencies of government, and down to our level where we can put them into practice.

It is our understanding also that HUD Assistant Secretary Savas will be here. We are pleased that his agency has elected to concentrate on the public-private area. We hope that some concentration can be placed on how local elected officials can convince the private sector that many of the services we have do have market potential. Of course, I know this is the subject of your forum.

Counties, too, have been active participants in a variety of services and through a variety of arrangements. As I mentioned, I have outlined several of them in my written statement. There are a couple which I will mention.

There is the effort by Winston-Salem and Forsyth County, N.C. They have established a local government efficiency review committee which was staffed by management specialists from more than 30 local firms. Their efforts produced 357 documented recommendations for ways they can have savings in their governments. In Ventura County, Calif., a contract was let to Xerox Computer Co. to provide utility billing with decreased costs to the government.

These and other activities are typical of our contract operations. We must also look to other types of activities, possibly more exotic but equally effective.

In Jacksonville-Duval County—which, by the way, is a consolidated city-county government. It was consolidated in 1968. If you ever care to have a panel on government structure and organization, I would be glad to participate.

Senator DURENBERGER. Next February in Jacksonville maybe. [Laughter.]

Ms. CRABB. We are very proud of our consolidation. In consolidating, we have eliminated the duplication of many services—in fact, I would say nearly all of them. We have a single sheriff's office, a single health department, a single library system, et cetera. We have also contracted with the private sector for the delivery of more than 20 different local government services: solid waste collection, major engineering projects, janitorial services, court reporting, advice on investments, and joint employment projects. I understand people were talking earlier about the employment problem we all are facing.

There are some other services being provided by the private sector which may not be commonly sought and which are generally at considerable savings to the taxpayer. Process serving by our sheriff's office had been handled by older officers. Through their longevity, their salary brackets had resulted in a cost of $8.10 a service. Two years ago the sheriff decided to bid out the serving of court papers. He now gets the job done for $6.90.

He also contracts out the air transportation of prisoners. For a while we had our own airplane for that service, but now we contract that out. It freed the pilot for the helicopter patrol unit.

We would like to contract out our entire motor pooling, but there are some difficult problems in that area. However, we do contract out our wrecker service. We had one wrecker, a $50,000 wrecker, just to tow heavy equipment. Now we contract that out.

The Jacksonville Transportation Authority is an independent agency made up of nonpaid citizens appointed by the mayor and the Governor. They oversee the city's bus system. We have a private coach company that manages it. They hire the employees and so forth. They run the bus system.

The city's zoo is another arrangement that we have made. We created a Jacksonville Zoological Society. Previously it was run by our recreation department. We had sort of on-the-job training on how to handle rare birds and exotic animals. Now it is done professionally.

Jacksonville is the largest city in land area in the continental United States—840 square miles. This has created unique problems in service delivery. One is grass mowing and tree trimming. We have assigned that to several contractors that cover various segments of the entire city-county.

Also, solid waste collection presented problems, as Mayor Latimer has already mentioned. Eleven years ago we started contracting out our garbage. In the former core city limits, we still collect the garbage and maintain a crew and a staff. We feel this would balance out strikes and so forth which we may be susceptible to if we were totally contracted out. We have the rest of the county divided into five segments. Five different companies have those franchised areas. The city collects garbage at $59 per residence and these contractors collect it at $53.50. So there is a $5.50 savings per residence by contracting out.

As an incentive, by the way, we do their billing for them. We collect it in taxes and pay them so they don't have those billing costs. I think this is an incentive. I think the government can do these sorts of things for them. Every single residence has trash and garbage picked up. We pick up anything, from washing machines to everything else.

One other thing: A contractual agreement which may be unique to Jacksonville—and I have not heard of it in other areas—is that our Duval County school board just constructed a 100,000-square-foot headquarters building at about $40 a square foot. How the school board did this was by forming a nonprofit corporation and then asking contractors to make bids on providing the land, the design work, the construction and the financing for a new building and a 30-year lease-purchase arrangement. The winning bidder was able to use the nonprofit corporation's bonding capability to get financing at such a low interest rate that he was able to give the school board a 5-year warranty on construction.

We have a similar proposal for a lease-purchase of a jail. The problem here is that a single-use institution may limit our ability to attract long-term financing.

We are looking at contracting out the operation of our landfills, water and sewer departments, and some other things. In 1973 we purchased a water-sewer system and contracted with a private company to run it. They are doing such a fantastic job that we are looking at trying to contract out our entire system to them. We have 600 employees in the rest of our system. They have 17 percent of our entire service and only have 70 employees. Recently, when we closed an incinerator, we had to let go 15 employees in our water-sewer division. We tried to relocate them, to retrain them in the area of government they were interested in, but they chose to institute a suit. One of the claims in the suit is that if we had not contracted with a private company at these other water-sewer facilities, they could have gone to work there.

Involving the private sector without profit is not always easy, but we have something called corporate caring in which Charter Oil Co. and CSX Co. have adopted high-rise residences for the elderly. They are also providing social and psychological services that have previously been provided by the city.

We are probably the last county to have our own radio station. We are trying to remedy that. We are very interested in pursuing and continuing aggressively this public-private venture.

There is one more thought I would like to state before I close. When people say that the government should be operated as a business, what business could be operated with civil service and unions? What business could operate with 30 percent of its payroll in benefits and fringes? Out of every $1 salary 27 cents goes into a pension fund paid by the city—that is not medical, et cetera. What business could operate with the generous 20 to 25 year pension plans that the local, State, and Federal Governments have? What business could operate with 60 percent of its budget in payroll?

We have listed some of the advantages and some of the disadvantages—loss of control over delivery of services, civil service, unions and possible strikes by nongovernment employees.

I will be glad to answer any questions that you may have.

Senator DURENBERGER. Thank you, Ms. Crabb.

Our next speaker is Randy Johnson.

Mr. JOHNSON. I, too, want to thank you, Senator Durenberger, members of the forum, and those attending this hearing, for the opportunity to exchange ideas of alternative ways of delivering traditional government services.

Councilwoman Crabb has talked about consolidated government and contracting out a lot of services which in our part of the country are generally performed by cities.

In Hennepin County, most of our budget—more than 70 percent of it—is in the area of health and social services. We have tried to do a lot of contracting with private vendors in these areas. At the present time, we contract out about $12 million in health and social services and in court services. That is roughly half of our total budget for those three areas of our county operations.

We are looking at other nontraditional types of service delivery besides just contracting out. For example, we are currently studying the possibility of a voucher system for our subsidized day care program.

Concerning my outline, I guess I should have purchased service outside, instead of having the government provide it for me, because it got done late. We know when things are done in the private sector they are done on time. [Laughter.] I think there are copies which can be distributed now. I am not quite sure what happened to them. It is an outline of my remarks and may make it easier to follow.

In Hennepin County we have developed some standard contracts for the purchase of services. I know there has been a lot of discussion on the difficulties of putting specifics down in writing contracts for social and health services which are being provided by outside vendors.

Hennepin County began to purchase services in these areas in a big way about 10 years ago through part of the Federal Model Cities program and through day care centers. We organized the county purchase of service office in August 1972.

We have an additional incentive for contracting out in Minnesota. We have already experienced what appears to be happening at the Federal level with block grants. The Community Social Services Act was enacted in Minnesota in 1979. We receive about $9 million a year as a block grant from the State of Minnesota under that act to provide services as the county determines they should be provided for chemical dependency, mental health, mental retardation, and several other services. The Community Social Services Act, the block grant bill itself, strongly encourages contracting out.

The first decision we have to make, when we are looking at a service, is whether we are better off doing it ourselves or looking to a private vendor. There are about 10 considerations. Every time we make this decision we very vigorously analyze each and every one of these considerations. I see many people here who are active in government as well as in private business. I think everybody knows that there is not always that kind of rigorous examination of what goes on; however, there are 10 things at which we do try to look.

The first one, of course, is whether there is legislation that requires us to contract it out, or legislation that prohibits us from doing it. Second, we try to look at the availability of what we already have on our own staff in terms of both physical facilities and staff expertise. Third, we look at what the cost considerations would be, both for us and for a private vendor, for startup and operating. Fourth, other types of service considerations include technical capability for program design and development; and the difficulty of providing a high quality of service. The fifth item we look at is the ability of either the county or private vendor to handle changing levels of service over a period of time.

We also look at flexibility to deal with a temporary service that may be provided. One example in this area is the interpretive language services being provided to our Indo-Chinese refugees. The location and the attitude of the targeted population for the service is another consideration. The availability of possible contractor vendors is also considered.

We have some things which we would very much like to contract out to the private sector but nobody is interested. One of them, for example, is our solid waste resource recovery program. In Minnesota, the counties have the responsibility, after the haulers have picked up the garbage, to figure out where it should go. We have been landfilling it. We intend to build a very large $250 million solid waste resource recovery plant to generate energy. We would very much like the private sector to come in and take over the whole system; however, at this point, nobody has shown any interest.

We also look at the dangers of legal liabilities in providing the service ourselves or in contracting it out. A 10th factor, which Councilwoman Crabb also mentioned, and which we found to be a very real one, is union considerations.

Instead of telling you about our whole process for requests for proposals (RFPs), I would just like to say we have tried to develop a process where, when we go out for RFPs, it is similar to the bidding process we use when we are buying equipment for our hospital or vehicles for our motor pool. We try to encourage competitive bidding on these types of services wherever we possibly can.

I would also like to talk about both the advantages and disadvantages of going out for purchase of service. We have already heard a lot about the advantages. I would just like to touch on some of them and give some examples of what we have seen in Hennepin County. I would also like to talk about the disadvantages, because it is not a one-way street.

One of the advantages, supposedly, is that service expectations are specified in the contract. We know what we are getting. What we have found, however, is that it is often very difficult, in the health and social areas, to put down in writing specific measurement criteria. I think Mr. Norris mentioned earlier that this may mean the government doesn't really know what it wants either when it is purchasing a service or providing the service itself. I think that is often a valid criticism. We found that the hardest single thing to put into a contract is the expectation of what we really want.

We found a second advantage for going outside the traditional approach of hiring more county employees to perform a service. That is, the services are more accessible to clients when the county doesn't do it directly itself. Other agencies are more easily distributed geographically throughout the county.

Another very important advantage is that they are also perceived as being nongovernmental and nonbureaucratic. An example of this is our walk-in counseling center, which is a privately contracted service. On one of the attitude surveys clients of that program said that the reason they come to the center is because it is not part of the government.

When we contract out, we find that services are often provided by agencies with roots in the community, and the agencies have a better understanding of the community needs than we have in government. This is particularly true of programs we have directed toward specific targeted populations. An example of this would be a chemical dependency program directed toward blacks, Spanish-speaking, native Americans and other groups.

We often find there is more community support for private service providers than for just another layer of government.

We also found, when we contract out, that the private agencies are more likely to engage in various types of service innovations, which we in government are much too conservative or afraid to try ourselves. We find that the private vendors are much more flexible in adjusting to the changing needs. At least theoretically, we have the ability to terminate contracts and switch providers.

The biggest advantage is that the costs are lower. I would like to believe, as a conservative, that the reason the costs are lower is because everything is done much more efficiently in the private sector. However, what we find is that the real reason is because the private vendor employees are paid less, the pension costs and benefit packages are much less, and there is a much greater use of volunteers.

The disadvantages that we have run into in the purchase of service in health, social services and court services areas are, first, the very real problem of defining what is an acceptable level of service and what it is that we are really buying. We find that often we don't have the ability to terminate contracts because of the political clout of the private vendor's private board of directors and the constituency which it serves.

We also have problems with unions. Public employees are not particularly excited about having their jobs contracted out to a private vendor. In fact, we have what I consider to be an unfortunate clause which we have agreed to in our last contract with our AFSCME union. It says,

> The employer agrees that, as a consequence of any purchase of service contract, employees shall not lose employment with Hennepin County, nor shall their salary be reduced.

This will limit us very greatly in the future as to what services we will be able to contract out.

We also find, too often, that a contractor or vendor becomes a captive of the county just as much as an employee would be, and it becomes entirely dependent upon the county for its funding. We have the usual problem that some decisions on which vendor to use or whether a need should be provided are made on a political basis rather than on a general needs assessment.

Despite all this, looking to the future, I think our county is going to be doing even more contracting out and more looking to private vendors, instead of going the usual way by hiring more government employees.

Right now, for the future, what we are looking at are the possibilities of contracting out our hospital management, our data processing center facilities management, our detoxification centers, and as I mentioned earlier, our solid waste resource recovery program. We have been very encouraged by what we have been able to do so far. We are very hopeful about what we can do in this area in the future.

Thank you.

Senator **Durenberger**. Thank you, Mr. Johnson.

Our panel may now address questions to any or all of our witnesses. We will start with Mr. Verne Johnson.

Mr. **Johnson**. One of the interesting things I hear, as I listen to these comments, is that we tend to see contracting out to someone in the private sector as either better or worse than public performance delivery. I am wondering, as we think this through and as we see the arguments, whether there isn't another factor in here that also should take shape.

We are talking about visible alternatives, and particularly the strength of the private sector with its competitive aspects. I don't know if they are talking as much about private versus public as they are about some kind of a visible alternative for the consumers of the public services.

We listened to Len Wilkening yesterday talk about the fact that the private sector could handle no more than, at best, probably 20 percent of certain kinds of health services, with 80 percent still being provided by the public sector. Or, we find the HMO movement, which is now at a 20-percent share of total medical care in the Twin Cities, having dramatic impacts on the other 80 percent. We have seen a similar impact in Minneapolis with the maintenance of our streets being half public and half private.

In other words, isn't there something here, in terms of visible alternatives in the delivery of services, which might well be government to government, government to nonprofits, government to forprofit, et cetera? You don't have to think in terms of replacing the governmental performance totally or even in high percentages. Maybe what we are talking about here is that a mix, wherever it is applicable, probably would do a lot for both systems.

I would like to ask my question in this general sense. Mayor Latimer, do you see contracting out as something that is either/or, or do you see it maybe in a little different context?

Mr. LATIMER. I just mentioned to Ms. Crabb that I thought that was a point she made about solid waste in her community. They are retaining a public sector as a way of mitigating against the hardships of a breakdown in the private sector.

I think it is undeniable that the presence of a private alternative does sharpen the focus on the effectiveness and efficiency of the public sector. I think that has to continue.

I don't think, however, that is the most interesting area. I think the more interesting area is, in fact, the mix of delivery. It may well be called public but, in fact, it is decentralized to the point, with community involvement at the delivery end as well as at the receiving end, that the mix occurs at the cutting edge. I am not sure whether it creates efficiencies in traditional terms; but, from the standpoint of community cohesiveness and support of the delivery systems, I think that is very important.

In addition to our police, for example, we have the neighborhood assistance officers in the city of St. Paul. They work with the paid police in many of the noncrime areas. Besides traffic control at Civic Center events and accident scenes, they check homes of vacationing residents, are on hand at large park activities and that kind of thing. The result is that it really brings the neighborhoods much closer to the police, as well as reduces the total cost of the police delivery system.

I don't know, however, if that is a good example demonstrating your point—as to testing the effectiveness of one sector as a result of the other's involvement. Rather, I think it enriches the total delivery better than either one would be apart.

Ms. CRABB. I think there are many areas where we are already doing that, such as in our engineering. We do all the small engineering, which is a variation. There is no absolute definition. Generally, the smaller engineering projects are done in-house and the larger ones are contracted out. I think there are examples like that. Isn't that what you are talking about?

Mr. JOHNSON. Yes; not one being either right or wrong, but some of each providing stronger services; and not only in terms of efficiency. As George said, responsiveness is probably a more critical element than efficiency.

Ms. CRABB. Right; I agree. I think what we have to do is just be more open-minded on both sides. I think businesses have to understand our problems, and we have to understand their problems. We have so many unpleasant or nonprofitable services that just have to be delivered; they just have to be done. It would be nice if businesses can understand and accept that, even if they just say, "OK, we can't handle that area because it is just not interesting to us at all; however, we can help in other areas." I think that is the attitude we have to get.

We have come through the sixties and seventies where we had such tremendous egoes in government—and I was there—that we thought the government had to do everything. This is obviously changing. I think that, even at the local level, we are changing. We don't have the sort of ego that says: "We are the only people who can deliver these services. Because we are the only ones who can do it, we won't talk to anybody else." I think that is changing.

Mr. **Gray** [presiding]. We will move on, and maybe we can come back around.

Mr. O'Connell?

Mr. **O'Connell**. I will make an observation and then ask what may be a somewhat painful question. The observation relates to you, Mayor Latimer. I have talked to Humphrey Doerman, Paul Verret, John Taylor, Carlos Luis, and others; and they all say you walk on water. [Laughter.]

Mr. **Latimer**. Not every day, though. [Laughter.]

Mr. **O'Connell**. Not every day?

I think one of the problems we run into in some of these fascinating public discussions is that we select people who are just so far above the average. We tend to say: "Why doesn't the St. Paul example apply in every community?" As I have heard them describe your administration, and as I read your statement, I gather that your uniqueness is that you absolutely relish the multiplication of people who really care and who are willing to stand up and be counted.

You talk about yourself as someone who is a convenor. I find many public administrators, though, trying to get back to a more manageable system. They have been tormented by the explosion of the power structure in every corner of their community. Now they want to get back to a much more manageable system.

It seems to me that your genius is to take advantage of that multiplication of people who really want to have a say in their own lives. That makes you unique. If we could figure out a way to clone you, I think a large part of the problem would be solved.

Now, to the painful question. All of you have raised the issue of unions, and Commissioner Crabb raised the issue of civil service. It seems to me that, down the road, we are going to face a pretty harsh conflict here if you want options. Sometimes when you are contracting out and after a while it doesn't work, so you want to move into a governmental program. Then, after 10 years, it doesn't work, so you want to move into a voluntary organization. Doesn't that conflict with the tradition of unionization of public employees and civil service?

Mr. **Latimer**. I am going to try to restrain myself because we represent a lot of interests. I will try to make my remarks brief. That is probably more painful than the subject you raise. [Laughter.]

It is a profound problem. In fact, I left it out of my speech entirely, if you noticed. That is how painful it is to me. It is a conflict of things that we believe in.

Putting all the rhetoric aside, I happen to be a strong believer in unionism. St. Paul is a strong union town. We have a little Davis-Bacon Act in St. Paul. You heard Randy talking about some problems. As far as St. Paul is concerned, it is not some problem; it is a pervasive and overwhelming cost problem.

When I talked about getting out of the garbage business, remember now we are not contracting out. If we were contracting out, then the private garbage haulers would have to make the same $24,000 a year that the St. Paul garbage haulers were earning. The reason we made the saving and the reason there was such a conflict was because we got out of the business entirely. It is a contract between the private neighborhoods or the private individuals and the haulers.

As to all of the other problems, I can tell you—putting aside the things that I love about St. Paul, and I am proud about what we have tried to do—about the number of failures and the number of inefficiencies we have. We had a $25 million tree program where the people throwing the brush on the truck were getting paid 15 cents an hour less than the people up in the trees cutting them—that is, against $10.50 an hour. That was about 3 or 4 years ago.

So I have no answer. I am telling you that you are absolutely correct; it is a major problem, and it isn't simply political.

When I say I happen to believe in unionism, I really do think one of the reasons the little Davis-Bacon Act does make sense is because we do not reward underpaying employers by saying they are more efficient. It is very difficult.

The coalition that I am trying to develop—in fact the State of Minnesota is now creating one under the Governor—is to try to demonstrate enough job production as a result of doing things differently, so as to compensate for those people who are already in the system. That is what I tried to do locally. In other words, we have created 8,000 new jobs in the past 5 years in St. Paul. Politically that helps me a lot, when I am getting beat about the head and shoulders as a result of a fight with 25 teamsters.

So that is where we are. I am sorry I can't give you a very satisfactory response.

Mr. Johnson. First, I would just like to respond to your comments about George's remarkable abilities, with which I agree. In Minneapolis they will admit that Mayor Latimer can walk on water, but in St. Paul they believe that he can water-ski without a motorboat. [Laughter.]

As to the question on unions and on their attitude, this is probably the biggest single problem that we have in contracting out today. There is a book which AFSCME has distributed widely called "Government for Sale." It is a collection of horror stories of contracting out. I know that the AFSCME people whom we were dealing with had read the book very carefully, and I know that everybody on our county board is familiar with it. I don't agree with everything in the book, by any means at all; but it does point out a lot of the problems and areas where things can go wrong.

Contracting out is probably the item, next to salaries, that is highest on the union's agenda in negotiating, we found, because it is absolute job security. When contracting out means you will lose your job, it is even a lot more important than salaries.

Ms. Crabb. In this water and sewer war where we are looking at contracting out the remaining 83 percent of our system—that is 600 employees—AFSCME is adamant about not losing those employees.

Mr. Gray. Charlie Schultze?

Mr. SCHULTZE. I had three questions, two which have already been answered. I will tell you what they were.

The first was, how much of the just straight year efficiency gain—and I am not talking about all of the most subtle things—in contracting out is efficiency, and how much is wages? That has been answered, I think.

The second question was, is there any danger as you contract out of having little Davis-Bacons creep up all over the country? That has been partly answered, I think. I would consider it a danger, but I gather you don't really think it is that much of a danger.

My third question is a combination question, stemming initially from Mayor Latimer's remarks. A lot of our conversation has stemmed around contracting out; that is, taking what are otherwise public services and contracting them out. It seems to me that some of the problems which arise in that are mitigated by the additional point of not merely contracting out the services, but breaking up the contractor into smaller groups. I would presume it is easier for some neighborhood associations to terminate a contract than it is for the city. I presume you get more innovation when you have a lot of different consumers instead of one consumer. I can see that in garbage collection. However, without fragmenting the whole city government, is there much potential for doing that substantially when you are contracting out--namely, to kind of demonopolize or decentralize the contractor? Are there many things you can do that way?

Mr. LATIMER. I think there are. For example, we have local development organizations in about half of our 17 neighborhoods right now. The result of that is a continuing negotiation between developers. Now this is not direct delivery of service. I think I am departing a little bit from your question. It is related to housing development, commercial development, and things of that sort. There you have a multiplicity of investors and developers and lots of lenders, small lending institutions, being involved in that process as well.

In the energy area, we have four local energy not-for-profit organizations. It is a lawyer's delight to see the number of not-for-profits we have springing up in Minneapolis and in St. Paul. In that area, also, we contract for everything—like the delivery of raw material, for insulation, plus all the work being performed for observation and for the retrofitting of private dwellings. A lot of that is being done on a contract neighborhood-wide basis and things of that kind. I think your point is a very good one.

Other than a mega system, like the one Randy mentioned—a $250 million, 2,700 tons a day; that is massive—you really have to be right when you cut that deal with that operator, for sure. Clearly, once you have made that decision, rather than to go to the modular area—modular reduction and recycling—then it seems to me that you are not going to be able to have the highly decentralized and competitive operations.

Mr. JOHNSON. I am not sure I can add very much to that. My own personal thinking is close to George's. I like the idea of having the strong support of neighborhoods, with neighborhood associations doing things on the smallest scale possible. It does make it harder, in one sense, for the county and any government unit to manage 30 or 40 or 50 providers instead of dealing with one public employees' union. We lose the control that we have in an employee-employer relationship. However, I think you do get the innovation. You do get some competition into the system.

I think it brings up what Verne Johnson said earlier. In some of these areas, the answer may not be in contracting everything out and in the competition between various vendors that is so important. It may be in just contracting out some aspects—a geographic area, some part of a chemical dependency service, some part of the continuing care—with the government doing one part of it and the nonprofit or private sector doing another

Mr. **Gray**. Thank you.

I would just like to invite comments on a couple of items. One, given that it was explicitly mentioned in Councilwoman Crabb's testimony that six franchises are collecting solid waste materials in the Jacksonville area, and in St. Paul any number of private entrepreneurs are doing the same thing; how does one decide, from your point of view right now, which is superior? Is it clear that one is superior to the other for the different areas you serve?

Ms. **Crabb**. We give 5-year contracts. Then every 5 years the franchised areas are up for bids. Companies come in and bid on them. We just negotiate the contract with the companies. We have turned down companies. We have turned down companies which we felt were not associated with the people whom we would like to do business with. This is a sensitive area, but we have two national companies and four local companies that now hold the franchise areas. They pick up from everybody.

We felt this was a better system. It also relieved our streets, roadways, and country lots from the garbage which people were dumping. When the individual has to contract for his garbage service, sometimes they don't do it. They take it down the road and dump it on somebody else's lot. Now we bill them through their taxes. They pay it in the once-a-year payment. Then we reimburse the contractor. Now everybody's garbage is picked up—they pick up everything—and it is the cheapest of any major county in the State of Florida. I don't know about the rest.

Mr. **Gray**. I live in St. Paul. Maybe that explains why so much trash is appearing in my yard. [Laughter.]

Questions from anyone else?

Mr. **Johnson**. Let me change the tone of the questions a little bit. Some of you haven't heard all the testimony, but I have. One thing that has been coming through—and Brian, your question implied that, because you have heard some of the others, also—is that the people who are appearing here are unusual. They are gifted people, such as was said about you, George. I certainly concur with that. The people we had yesterday, for example, in the face of great obstacles, including many obstacles from the government itself, have overcome certain things and have been able to rise.

I don't know if you used the words, "mediating structures," but AEI uses those words quite a bit. These mediating structures—like the family, the neighborhood organizations, the ethnic organizations, and so forth—are really the linkages between the government and a lot of other performance areas. We have to build on these mediating structures.

I think that you have asked the question, Are there enough of those throughout this country; or, is there the potential of having enough with sufficient strength so that you can develop a strategy based on building on what we call mediating structures?

George, I know you worked very closely in St. Paul on that. I would just like to hear what you think about the viability of building on that kind of a strategy.

Mr. LATIMER. Yes; I think it is constructive.

By the way, thank you for your kind remarks. It is very instructive that I have had two or three really nice things said about me today. The only person who lives in St. Paul is Dr. Gray. He has refrained from even acknowledging I am doing anything. I think that is very important for all of us to remember. [Laughter.]

Mr. GRAY. We will talk about the hole in front of my house later. [Laughter.]

Mr. LATIMER. I happen to believe, and it is partly an act of faith and partly empirical, that we tend to say, "Oh, well, that is Minnesota." Sure, we have a political culture and a tradition that we are very proud of. Every State has some kind of tradition it is proud of.

I really do believe, however, that mediating structures are much stronger than we give them credit for. Having lived in New York City while studying law, I happen to believe that the human condition is much more shared than it is separated throughout this country. I saw it in the ability of the Upper West Side in Manhattan, where I lived, to organize itself. Clearly there are built-in inefficiencies which you have to watch out for. Some neighborhoods simply do not have the demographics. I am speaking now of age as well as ability in many cases.

So, you have to be very careful in distributing resources and in lending public support that you acknowledge that not every neighborhood is as capable of performing delivery as others. However, you would be surprised at the number of old targeted neighborhoods in St. Paul, where the tremendous activity of the development corporations has been—for your benefit only, Dr. Gray, West 17th Street, Summit and University. I am describing the inner-city neighborhoods which, as a result of a lot of the sixties action, have developed an ability to organize. The sophistication is surprising.

Yes; I do think that it is a rich and pervasive enough resource. We left out churches, but I think churches are also a very important factor. Then there is the foundation community. We are very rich in that area as well.

I am wondering if, earlier in your proceedings, you talked about any of the institutional changes which might be made to help liberate some of our private sector—for example, the limitations on the union pension funds. This is something I have just vaguely heard about academically recently. We put together a foundation program in which the McKnight Foundation contributed $15 million for equity participation in a joint revenue bond program for low- to moderate-income housing in Minneapolis and in St. Paul. The unions were also prepared to commit $20 million for long-term financing. Resources sent a negative letter, so we had to proceed without the unions.

Senator, I don't know if that is beyond the purview of this study, but I think it would be well worthwhile to really examine those tax laws and those other regulations. We should find out which ones are disincentives to the active participation of a lot of the mediating institutions which together have pooled their resources, if you will. That really could be a tremendous resource to reinvest and recycle our cities.

Ms. **Crabb.** I think one of the reasons we have gotten into this neighborhood thing is because of the frustrations people have with the government generally. I endorse these neighborhood programs, but also I think there is another angle to it. I think the people want to know where their money goes. I think if they became ratepayers instead of just taxpayers, they may be more satisfied.

We have a very careful cost accounting system in Jacksonville. We have done it for 11 years, since our consolidation. We can identify, at any time, our cash flow and exactly what every service is costing every department, division, and so forth. However, people don't really understand that. If they have a rate, a contract, or something like that, they can understand it, I think. They can understand that the service or the delivery costs *x* numbers of dollars. I think this is another angle to it.

Mr. **Schultze.** That raises something in my mind. Do you, first of all; and, second, can it be more generalized? Can you identify specifically in your tax bill some of the services?

Ms. **Crabb.** No, we don't.

Mr. **Schultze.** Is it one lump sum?

Ms. **Crabb.** We talked about it. It would be so cumbersome and make such a tax bill. We identify some others which you don't. We do have booklets out.

Mr. **Schultze.** I don't want to push this too hard. If there are, at least, some areas where neighborhoods can contract on their own, you can get people talking, "Well, we paid $15 and they paid $7." I am wondering if you can introduce more competition and more pressure into it, which would seem to be helpful.

Senator **Durenberger** [presiding]. Is that it?

I knew you would still be talking when I returned. [Laughter.]

Thank you all very much, panelists. You have been very, very helpful.

[The prepared statements of Mr. Latimer and Ms. Crabb, and an outline of the testimony of Mr. Johnson follow:]

PREPARED STATEMENT OF MAYOR GEORGE LATIMER, SAINT PAUL, MINN.

FORUM ON ALTERNATIVES TO PUBLIC SERVICE DELIVERY

Senator Durenberger, honored committee members: thank you for this opportunity to speak to the question, "What is the role of the public official in encouraging or enabling opportunities for alternatives?"

If there is one role a public official must fill, it is that of trying to lead, to embody the best ideas of the citizens, to stand for the ideals and visions that give our country inspiration and hope. It is with this spirit that we meet today to discuss both some general ideas and concepts on new ways to deliver public services, and some of the specific alternatives that the City of Saint Paul has undertaken.

First, the question asked assumes that local government could be doing a better job. I agree. And we certainly should be attempting to do so. This is not a new idea. At the national level such schemes as PPBS and zero-based budgeting have been tried. They have not solved all of the problems. In Saint Paul we have been streamlining for years. There definitely are alternatives that can and should be tried.

I have a list of alternative actions that Saint Paul has tried. These run the gamet from contracting outside services, using citizen volunteer groups, working with nonprofits, competing with the private sector, and subsidizing private business to accomplish what we see as the public interest.

For example, Saint Paul has undertaken a concentrated service delivery program as part of our Better Neighborhoods program; the City terminated its trash program and has assisted neighborhoods in contracting for trash removal; the City eliminated its testing laboratory in favor of purchasing services from the private sector; the City purchased data processing services from a number of consulting firms; the City terminated its Consumer Affairs and Pollution Control agencies and transferred these functions to the State; the City has subsidized the operations of a nonprofit recycling operation in order to establish a citywide recycling program; the City and Ramsey County have terminated their direct delivery of youth services and instead have purchased these services from a private nonprofit corporation; the City Fire Department has contracts with firms and other cities; the City trimmed its animal control program back based on proposals which it reviewed from private firms; the Police Department has used an extensive network of volunteer services resulting in some 38,000 volunteer hours annually; a corporate grant has allowed the Police Department to hire a civilian staff person to work with neighborhoods on crime prevention; the Fire Department uses volunteers in its home inspection program; the City sells its services to other units of government such as the County and the School District through joint powers agreements; the City purchases computer services from the County, and the City has a number of other programs with the School District and the County to make maximum use of City employees and eliminate duplication of services where possible.

My role in these actions has generally been to bring people together, and to act as a broker or a facilitator. Sometimes my role has been to promote new ideas or to innovate.

As a result of our experiences we have learned to ask ourselves these questions:

> Is there a need?
>
> As a community, how do we best address it?
>
> Does our decision-making process allow us to identify and analyze private, nonprofit and volunteer alternatives?
>
> Who can best provide our services? Government? At what level? Some other group?
>
> Are there services that we provide that are also provided by the private, nonprofit or volunteer sectors?

Many people now believe that the private sector can do a better job of delivering services than the public sector. While this may not be a universal assumption, it is clear that many who are raising the banner of alternative service delivery do accept this notion. After all, they might argue, the private sector has those hard-hitting executives, they need to be efficient to make profits, and they have a no-nonsense attitude. Let's look a little closer.

We are being asked to turn over services to the private sector or to form partnerships with them. To that I say "fine." But since government is being critically examined in order to improve its capabilities, shouldn't the private sector also? After all, we see in the private sector a decline in productivity, slacking investment in research and development, an unwillingness to consider external effects of private actions, a lack of capital investment, a trend to seek short-term benefits, resistance to experiment with creative management, a loss of competitive strength when compared to foreign industry, and problems with the public contracting out enormous sums of dollars to private businesses where we have seen delays, cost overruns, and sometimes outright fraud.

I conclude that if Americans are going to start looking at service delivery in new ways, they had better take a good look at the entire equation. The private sector has problems. The private sector has strengths. It is superficial to take the discussion of alternatives out of context.

It is not simply due to circumstances of 1981 that we are questioning which services the government should not be delivering. Senator Durenberger, speaking last month to the Minnesota League of Cities said that the "decongestion" of the intergovernmental system would take "more than a simple decision to cut and run. To decongest you begin with where we are today, not where we were in 1951 -- having learned something in 30 years. You also do not assume that every function is best performed by local government and paid for with property tax or shared state taxes."

I do not advocate making a blind commitment to government. There will be new and as yet unthought of creative ways to provide services for our citizens. In fact, this discussion of alternatives could very well lead to very positive results. The business of the public sector and the private sector must both be looked at honestly.

I wish to make two final points of a general nature.

One is that new partnerships and new municipal operation alternatives seem to work best when we embark on new efforts to revitalize our cities. For example, Saint Paul is undertaking the development of an innovative 220-acre Energy Park. There is no way the City could unilaterally bring this project home . . . a project which, by the way, has everything to do with this City's future: a growing tax base and an expanding job base. The project is moving along because one major corporation (in this case the Control Data Corporation) came out early to throw its support behind the project, because the City's industrial development agency took the leadership to put the project together, because five separate foundations agreed to participate in underwriting major portions of the project, and because the State and Federal Governments agreed to participate in a privately-sponsored (the Kettering Foundation) Negotiated Investment Strategy experiment. This is not a case of the conventional "let the public do it" urban renewal approach. It is a true public/private partnership. And, it is happening because each of the various public and private interests has a clearly defined role.

In a similar vein, we are now toying around with the notion of having a private sector group manage all of the central business district services. We believe that it is in the best interests of those private sector downtown stakeholders to manage the downtown (with, of course, all of the necessary public interest safeguards). We are exploring contracting out the affected municipal services to a proposed downtown management group because to the extent that the downtown interests sense an ownership claim on the downtown (as in the highly-successful suburban mall and office complex developments) it will be better cared for.

Again, the point is that new and emerging initiatives often provide the best opportunities and avoid turf problems in launching major alternatives to business-as-usual.

My second point is that real gain can be achieved by increasing the amount of sweat equity from citizens in municipal operations. When individual citizens, homeowners, or businesses are actively and legitimately involved in practical problem-solving activities our efforts are significantly enhanced. Whether we are talking about neighborhood fix-up programs, tool lending libraries, neighborhood energy retrofitting programs, or commercial strip revitalization, we have seen enormous gains when the City is operating in partnership with the affected parties, when contracting out is used to get the right driver in the right driver's seat, or when voluntarism makes full use of the resourceful tool kit which City Hall has to offer.

Each situation has to be judged separately and carefully. We have all seen what happens to poorly thought out or simplistic plans. I believe Senator Durenberger's recent work with Public Service Options* clearly demonstrates the need to adequately

*(Public Service Options has an alternative service strategy project in the Twin Cities jointly sponsored by the Citizens League and the Upper Midwest Counci.)

address the legal, technical and financial obstacles to alternative service delivery . . . this is in addition to all of the political and community organizing work which is so necessary to set the stage for alternative strategies.

This is all by way of saying that it is difficult, if not impossible, to address the service alternative notion through broad based public policy pronouncements (like the New Federalism) or generalities . . . principles, yes, but not rigid and simplistic policies applied across the board. The magnificent potential of alternative service delivery rests with public leadership commitment, dedicated individuals working on specific efforts, and a realization that the public good can best be served, not through pure profit or market motivations, but through a genuine respect for the higher principles of the public household.

STATEMENT OF THE HONORABLE NANCIE S. CRABB, COUNCILWOMAN, DUVAL COUNTY, FLORIDA AND MEMBER, NATIONAL ASSOCIATION OF COUNTIES* (NACO) BOARD OF DIRECTORS; BEFORE THE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS, SENATE GOVERNMENTAL AFFAIRS COMMITTEE, ON ALTERNATIVE SERVICE DELIVERY, JULY 10, 1981.

CHAIRMAN DURENBERGER AND DISTINGUISHED MEMBERS OF THE FORUM, MY NAME IS NANCIE S. CRABB. I AM AN ELECTED COUNCILWOMAN FROM DUVAL COUNTY, FLORIDA, A CONSOLIDATED JURISDICTION WITH THE CITY OF JACKSONVILLE AND AM A MEMBER OF THE NATIONAL ASSOCIATION OF COUNTIES (NACO) BOARD OF DIRECTORS. I AM ACCOMPANIED THIS MORNING BY BRUCE TALLEY, ASSOCIATE DIRECTOR OF NACO.

WE APPEAR BEFORE YOU TODAY TO DISCUSS A TOPIC OF GROWING IMPORTANCE TO COUNTY AND ALL GOVERNMENTS. ALTERNATIVE SERVICE DELIVERY ACTIVITIES ARE RAPIDLY BEING SOUGHT IN OUR DAY-TO-DAY POLICY DISCUSSIONS, AS WE ARE DAY-TO-DAY FACING THE PROP 13'S, SPENDING CAPS, MASSIVE FEDERAL RETRENCHMENT IN DOMESTIC SERVICE FUNDING, LIMITS TO ARGUMENTS FOR AD VALOREM PROPERTY TAXES PROVIDING FOR NON-PROPERTY RELATED SERVICES AND AN ACKNOWLEDGEMENT THAT WE HAD BETTER ATTEMPT INNOVATIVE WAYS OF PROVIDING PUBLIC SERVICES.

NOT ONLY ARE THESE HEARINGS TIMELY, BUT SERVE A DUAL PURPOSE OF EDUCATING THE WITNESS AS WELL AS THOSE HEARING TESTIMONY. WE ARE HERE TO LEARN AS MUCH AS WE ARE HERE TO EDUCATE.

THE PANEL HAS HEARD FROM MANY PEOPLE IN THE LAST DAY-AND-A-HALF OF HEARINGS. I AM SURE THAT THEIR TESTIMONY WAS FILLED WITH SUGGESTIONS, PRACTICES, EXAMPLES AND VERY VALUABLE TECHNIQUES. WE WOULD HOPE THAT THE GROUPS THAT HAVE TESTIFIED AS WELL AS THE FEDERAL AGENCIES PRESENT HERE DO ALL THEY CAN TO ASSIST LOCAL GOVERNMENTS IN MAKING THESE INNOVATIONS, WORK-

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* NACO IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN AMERICA. ITS MEMBERSHIP INCLUDES URBAN, SUBURBAN, AND RURAL COUNTIES JOINED TOGETHER FOR THE COMMON PURPOSE OF STRENGTHENING COUNTY GOVERNMENT TO MEET THE NEEDS OF ALL AMERICANS. BY VIRTUE OF A COUNTY'S MEMBERSHIP, ALL ITS ELECTED AND APPOINTED OFFICIALS BECOME PARTICIPANTS IN AN ORGANIZATION DEDICATED TO THE FOLLOWING GOALS: IMPROVING COUNTY GOVERNMENT; SERVING AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACTING AS LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; AND, ACHIEVING PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

ING OPTIONS IN THE NORMAL POLICY PROCESS OF LOCAL GOVERNMENT, RATHER THAN UNIQUE EXCEPTIONS INDIGENOUS TO FAR TOO FEW COMMUNITIES.

IT IS OUR UNDERSTANDING THAT HUD ASSISTANT SECRETARY SAVAS WILL BE SPEAKING LATER THIS MORNING. WE ARE PLEASED THAT HIS AGENCY HAS ELECTED TO CONCENTRATE ON THE PUBLIC-PRIVATE AREA AND WE HOPE SOME CONCENTRATION CAN BE PLACED ON HOW LOCAL ELECTED OFFICIALS CAN CONVINCE THE PRIVATE SECTOR THAT MANY OF THE SERVICES WE PROVIDE HAVE MARKET POTENTIAL.

THIS FORUM HAS PROBABLY HEARD OF MANY SPECIFIC EXAMPLES OF SERVICE ALTERNATIVES. COUNTIES, TOO, HAVE BEEN ACTIVE PARTICIPANTS IN A VARIETY OF SERVICES AND THROUGH A VARIETY OF ARRANGEMENTS.

- EAST BATON ROUGE PARISH, LOUISIANA RETAINS A MANAGEMENT FIRM TO PROVIDE COMPREHENSIVE CHILD CARE FOR CHILDREN WHEN THEY ARE SICK SO THE PARENTS CAN CONTINUE TO WORK.
- A JOINT EFFORT BY WINSTON-SALEM AND FORSYTH COUNTY, NORTH CAROLINA ESTABLISHED A LOCAL GOVERNMENT EFFICIENCY REVIEW COMMITTEE WHICH WAS STAFFED BY MANAGEMENT SPECIALISTS FROM MORE THAN 30 LOCAL FIRMS WITH ADDITIONAL SUPPORT FROM THE UNIVERSITY COMMUNITY. THEIR EFFORTS PRODUCED 357 DOCUMENTED RECOMMENDATIONS WHICH WOULD PROVIDE POTENTIAL ANNUAL SAVINGS OF OVER $4 MILLION TO THESE GOVERNMENTS.
- IN VENTURA COUNTY, CALIFORNIA A CONTRACT WAS LET TO XEROX COMPUTER COMPANY TO PROVIDE UTILITY BILLING WITH DECREASED COSTS BUT NET INCREASE IN INTEREST INCOME DUE TO THE ABILITY TO SPEED COLLECTIONS.
- LOS ANGELES COUNTY CONTRACTS OUT PART OF ITS ASSESSMENT FUNCTION TO THE PRIVATE SECTOR RATHER THAN PURCHASE AND

STAFF AN EXPANDED OFFICE. THE REAPPRAISAL SYSTEM ALLOWS THE COUNTY TO RECEIVE ALMOST $1.9 MILLION ANNUALLY IN FUNDS IT WOULD HAVE LOST DUE TO THE INABILITY TO KEEP UP WITH SOLD OR TRANSFERRED PROPERTY.

° MANY ARE FAMILIAR WITH THE COMPAC PROGRAM IN PITTSBURGH/ ALLEGHENY COUNTY WHERE THERE WAS A PRIVATE SECTOR COMMITMENT TO GET INVOLVED BY APPLYING "IMMEDIATE, TANGIBLE AND SUBSTANTIVE MANAGEMENT REFORMS THAT COULD BE READILY ADAPTED FROM THE MODERN PRACTICES OF PRIVATE INDUSTRY OR OTHER LOCAL GOVERNMENTS" (FROM THEIR "PURPOSE" STATEMENT).

° EARLIER, SRI MAY HAVE MENTIONED THE "NON-SERVICE" ACTIVITIES PERFORMED BY COUNTIES SUCH AS THE JOB SHARING AND FLEXIBLE HOURS PROGRAM FOR THE ELDERLY IN DADE, KING AND MARICOPA COUNTIES.

THESE AND OTHER ACTIVITIES ARE TYPICAL OF EXTRA-COUNTY OPERATIONS BOTH FOR THE PROVISION OF SERVICES AS WELL AS FOR MANAGEMENT IMPROVEMENT. WE MUST ALSO LOOK TO THE OTHER TYPE OF ACTIVITIES, POSSIBLY MORE EXOTIC BUT JUST AS EFFECTIVE.

IN JACKSONVILLE-DUVAL COUNTY, WE HAVE CONTRACTED WITH THE PRIVATE SECTOR FOR THE DELIVERY OF MORE THAN TWENTY DIFFERENT LOCAL GOVERNMENT SERVICES.

SOLID WASTE COLLECTION, MAJOR ENGINEERING PROJECTS, JANITORIAL SERVICES IN PUBLIC BUILDINGS, COURT REPORTING, ADVICE ON INVESTMENTS, JOINT EMPLOYMENT PROJECTS, ARE AMONG THE TYPES OF SERVICES DUVAL COUNTY CONTRACTS FOR, MUCH LIKE OTHER CITY AND COUNTY GOVERNMENTS. BUT THERE ARE OTHER SERVICES BEING PROVIDED BY THE PRIVATE SECTOR WHICH MAY NOT BE COMMONLY SOUGHT, AND GENERALLY AT CONSIDERABLE SAVINGS TO THE TAXPAYER.

PROCESS SERVING BY THE SHERIFF'S OFFICE HAS BEEN HANDLED BY OLDER POLICE OFFICERS NEARING RETIREMENT. HOWEVER, THEIR LONGEVITY WITH THE DE-

PARTMENT PUT THEM IN A SALARY BRACKET THAT RESULTED IN A COST OF $8.10 PER SERVICE. TWO YEARS AGO THE SHERIFF DECIDED TO BID OUT THE SERVING OF COURT PAPERS AND NOW GETS THE JOB DONE MORE EFFECTIVELY AT $6.90 PER SERVICE, OR A SAVINGS OF $1.20.

THE SHERIFF ALSO CONTRACTS FOR THE AIR TRANSPORTATION OF PRISONERS, WHICH FREED A PILOT FOR THE HELICOPTER PATROL UNIT AND ELIMINATED THE LEASING OF A PLANE.

FOR YEARS THE CONSOLIDATED GOVERNMENT MAINTAINED A FLEET OF WRECKERS IN THE MOTOR POOL. ONE WRECKER WAS DESIGNED TO TOW HEAVY EQUIPMENT. ALTHOUGH IT WAS SELDOM USED, THIS $50,000 WRECKER SERVED A SPECIFIC PURPOSE AND HAD TO BE MAINTAINED. THE MOTOR POOL OFFICER LEARNED THAT SEVERAL HEAVY EQUIPMENT DEALERS IN THE AREA HAVE THE SAME SELDOM-USED WRECKER IN THEIR INVENTORY, THEREFORE WE CONTRACTED FOR ALL OF OUR WRECKER SERVICES AS WELL AS OUR HEAVY EQUIPMENT REPAIR WORK TO BE DONE ON THE OUTSIDE.

THE JACKSONVILLE TRANSPORTATION AUTHORITY, AN INDEPENDENT AGENCY MADE UP OF NON-PAID CITIZENS APPOINTED BY THE MAYOR AND THE GOVERNOR, OVERSEES THE CITY'S BUS SYSTEM AND HIRES A PRIVATE COACH COMPANY TO OPERATE IT. AUTHORITY MEMBERS ARE CONVINCED THE SYSTEM OPERATES MORE EFFICIENTLY AND AT LESS COST IN THE HANDS OF THE PRIVATE MANAGEMENT, WHICH OPERATES BUSES IN SEVERAL CITIES.

THE CITY'S ZOO IS OPERATED UNDER A SIMILAR ARRANGEMENT WITH THE JACKSONVILLE ZOOLOGICAL SOCIETY. FOR 40 YEARS THE ZOO HAD BEEN OPERATED BY THE CITY RECREATION DEPARTMENT, USING CIVIL SERVICE PERSONNEL WHO LEARNED ABOUT THE CARE AND HANDLING OF RARE BIRDS AND ANIMALS ON THE JOB. IN 1970, TWO YEARS AFTER CONSOLIDATION, A 25-MEMBER ZOO BOARD WAS CREATED AND GIVEN THE RESPONSIBILITY OF HIRING A PROFESSIONAL STAFF WITH EXPERIENCE IN CARING FOR ANIMALS.

JACKSONVILLE IS THE LARGEST CITY IN LAND AREA IN THE CONTINENTAL UNITED STATES, 840 SQUARE MILES, AND THIS CREATES UNIQUE PROBLEMS IN SERVICE DELIVERY. GRASS-MOWING AND TREE-TRIMMING MUST BE ASSIGNED TO SEVERAL CON-

TRACTORS, AS IS OUR SOLID WASTE COLLECTION. THE CITY'S SANITATION DIVISION COLLECTS IN THE 39 SQUARE MILES OF THE OLD CORE CITY, AT A COST OF $59.00 PER RESIDENCE PER YEAR. THE SIX FRANCHISED COLLECTORS SHARE THE REST OF THE CITY AND DO IT FOR $53.50 PER RESIDENCE.

ONE CONTRACTURAL AGREEMENT BETWEEN THE PUBLIC AND PRIVATE SECTOR WHICH MAY BE UNIQUE TO JACKSONVILLE IS THE ONE THAT GOT THE DUVAL COUNTY SCHOOL BOARD A 100,000 SQUARE-FOOT HEADQUARTERS BUILDING AT ABOUT $40 A SQUARE FOOT. THE SCHOOL BOARD FORMED A NON-PROFIT CORPORATION, THEN ASKED SIX CONTRACTORS TO BID ON PROVIDING THE LAND, DESIGN WORK, CONSTRUCTION AND FINANCING FOR A NEW BUILDING ON A 30-YEAR LEASE-PURCHASE ARRANGEMENT. THE WINNING BIDDER WAS ABLE TO USE THE NON-PROFIT CORPORATION'S BONDING CAPABILITY TO GET FINANCING AT SUCH A LOW INTEREST RATE, HE WAS ABLE ALSO TO GIVE THE SCHOOL BOARD A FIVE-YEAR WARRANTY ON CONSTRUCTION. WE HAVE A SIMILAR PROPOSAL FOR LEASE-PURCHASE OF A JAIL, BUT THE PROBLEM OF A SINGLE-USE BUILDING MAY LIMIT OUR ABILITY TO ATTRACT LONG-TERM FINANCING.

WE ARE LOOKING AT CONTRACTING THE OPERATION OF OUR LANDFILLS AND WATER AND SEWER DEPARTMENT. IN 1973 WE PURCHASED A WATER-SEWER SYSTEM AND CONTRACTED WITH A PRIVATE COMPANY TO RUN IT. AN ODD TWIST TO THIS; WE RECENTLY CLOSED AN INCINERATOR IN ANOTHER WATER-SEWER FACILITY AND NO LONGER NEEDED 15 EMPLOYEES. WE TRIED TO RELOCATE THEM IN OTHER POSITIONS IN THE GOVERNMENT, BUT THEY HAVE INSTITUTED A SUIT AND ONE OF THE CLAIMS IS, IF WE DID NOT CONTRACT THE OTHER PLANTS TO A PRIVATE COMPANY, THEY COULD GO TO WORK THERE.

INVOLVING THE PRIVATE SECTOR IN SERVICE DELIVERY WITHOUT PROFIT IS NOT ALWAYS EASY BUT SOMETHING NEW CALLED "CORPORATE CARING" IS BEING TRIED IN JACKSONVILLE. THE IDEA IS TO INTEREST LARGE CORPORATIONS IN "ADOPTING" A HIGH-RISE RESIDENCE FOR SENIOR CITIZENS AND ENCOURAGING THEIR EMPLOYEES TO INTERACT WITH THE RESIDENTS ON BOTH A GROUP AND ONE-TO-ONE BASIS. BY SHARING MANY OF THEIR COMPANY'S EMPLOYEE ACTIVITIES AND CREATING NEW PROJECTS FOR THE OFTEN LONELY SENIORS, THE CORPORATIONS ARE HELPING TO RELIEVE THE CITY'S BURDEN IN PROVIDING ALL OF THEIR SOCIAL AND PSYCHOLOGICAL NEEDS AS

WELL AS THEIR HOUSING. TO DATE, CHARTER OIL COMPANY AND CSX CORPORATION HAVE ADOPTED RESIDENCES, AND WE'RE LOOKING FOR FOUR MORE CORPORATIONS TO PARTICIPATE.

CONSOLIDATED GOVERNMENT OFFICIALS ARE GENERALLY PLEASED WITH THEIR RELATIONSHIP WITH THE PRIVATE SECTOR ON SERVICE DELIVERY, BUT CAUTION AGAINST MAKING TOTAL COMMITMENTS WHEN AVOIDABLE. WHEN LOCAL GOVERNMENT RETAINS A PORTION OF THE DELIVERY CAPABILITY OF A SPECIFIC SERVICE, IT IS ABLE TO MAINTAIN SOME CONTROL OVER THE CONTRACTOR'S LEVEL OF DELIVERY.

SOME OF THE DISADVANTAGES OF PRIVATE VENTURES INCLUDE LOSS OF CONTROL OVER THE DELIVERY AND QUALITY OF SERVICE, THE PROBLEMS OF EMPLOYEES BEING ALREADY ON PAYROLLS, CIVIL SERVICE, UNIONS, POSSIBLE STRIKES BY NON-GOVERNMENT EMPLOYEES.

WHEN PEOPLE SAY GOVERNMENT SHOULD BE OPERATED AS A BUSINESS, WHAT BUSINESS COULD BE OPERATED WITH CIVIL SERVICE AND UNIONS? WHAT BUSINESS COULD OPERATE WITH 30% OF ITS PAYROLL IN BENEFITS AND FRINGES: OUT OF EVERY $1.00 SALARY, GOES 27¢ TO PENSION FUND ALONE PAID BY THE CITY. WHAT BUSINESS COULD OPERATE WITH THE GENEROUS 20-25 YEAR PENSION PLANS LOCAL, STATE, AND FEDERAL GOVERNMENTS HAVE?

WE ARE PROBABLY THE LAST COUNTY TO STILL OWN ITS OWN RADIO STATION, BUT WE ARE AGGRESSIVELY PURSUING PUBLIC-PRIVATE VENTURES OF EVERY SORT.

I HAVE TRIED TO GIVE YOU A FLAVOR OF COUNTY ACTIVITIES GENERALLY. AS YOU CAN IMAGINE, THERE ARE POLITICAL CONCERNS, MEDIA PROBLEMS, CITIZEN PARTICIPATION ACTIVITIES AND SO FORTH.

MANY YEARS AGO, IT WAS SAID THAT "ALL UNPROFITABLE FUNCTIONS ULTIMATELY WILL BECOME GOVERNMENTAL ACTIVITIES." THIS WAS PROVEN TRUE WHEN WE REALIZE THAT AT ONE TIME FIRE DEPARTMENTS, PUBLIC TRANSIT, ELECTRIC POWER AND WATER DISTRIBUTION WERE PRIVATE SERVICES. WE MUST GET BACK TO "PRIVATIZATION" AND NOW APPEARS TO BE AN OPPORTUNITY TO DO SO.

TAXPAYERS, BY AND LARGE, ARE WANTING TO BE CALLED RATE PAYERS. THAT IS, THEY ARE WANTING TO KNOW EXACTLY WHERE THEIR MONEY GOES, HOW

MUCH FOR EACH SERVICE AND HAVE SOMETHING TO SAY ABOUT THE SERVICE LEVEL. LOCAL GOVERNMENTS, WHICH ARE LABOR INTENSIVE, NEED TO LOOK TO NON-GOVERNMENT SERVICE DELIVERY WHETHER THROUGH CONTRACT, BENEVOLENT CORPORATE PROVISION, SHARED SERVICES AND SO FORTH.

BUT, LOCAL GOVERNMENTS MUST ALSO BE PREPARED TO BE RECEPTIVE TO A "QUID PRO QUO" ENVIRONMENT WITH BUSINESS. IF, IN FACT, THE PRIVATE SECTOR IS TO BECOME A MAJOR FACTOR IN OUR INTERGOVERNMENTAL SERVICE DELIVERY SYSTEM, WE SHOULD ALSO BEGIN CONSIDERATION OF OUR GOVERNMENT PRACTICES WHICH CONSTRAIN AND INFLICT HARM ON THE PRODUCTIVITY OF OUR BUSINESSES. WHAT LOCAL GOVERNMENT CAN SAY THAT NONE OF ITS POLICIES -- ZONING, LICENSING, ENVIRONMENTAL -- ADVERSELY AFFECT THE WILLINGNESS OF THE PRIVATE SECTOR TO SHARE IN THE BURDEN OF PUBLIC SERVICE RESPONSIBILITY.

JUST AS THE FEDERAL GOVERNMENT HAS NOW REESTABLISHED THE PRIORITY OF REGULATION REFORM AND RELAXATION OF BURDENSOME MANDATES, LOCAL GOVERNMENTS-- IF THEY ARE TO EXPECT A COMMUNITY-WIDE SERVICES DELIVERY SYSTEM--MUST BE WILLING TO PARTICIPATE IN UNDERSTANDING THE BURDENS OF BUSINESS. I AM CONVINCED THAT THERE ARE MANY SERVICES WHICH CAN BE PROVIDED BY THE PRIVATE SECTOR AT PROFIT BUT STILL BELOW OR EQUAL TO THE COST OF PUBLIC PROVISION. THE PUBLIC WELL DESERVES THE BEST FOR THE LEAST COST -- IN MOST CASES WHAT IS REQUIRED IS A GOOD CONTRACT -- ONE THAT FULLY ENCOMPASSES THE POLICY, PLANNING AND FINANCIAL ASPECTS OF A PARTICULAR SERVICE. I BELIEVE THIS CAN BE DONE.

IN CLOSING, I WOULD LIKE TO EMPHASIZE A POINT I MADE EARLIER IN MY STATEMENT. WE NEED TO START A SENSIBLE AND RESPONSIBLE LONG-TERM RELATIONSHIP WITH THE PRIVATE SECTOR WHICH HAS THE GOAL OF MAKING EARLIER CITED EXAMPLES THE RULE RATHER THAN ISOLATED EXCEPTIONS. THIS WILL REQUIRE AN AWARENESS OF AND A NEED FOR EFFECTIVE METHODS OF COMMUNICATION BETWEEN THE PUBLIC AND PRIVATE SECTORS BASED ON A MUTUAL UNDERSTANDING OF THE OBJECTIVES OF BOTH. THE GRANVILLE CORPORATION SUMS IT UP BEST:

GOVERNMENT NEEDS TO LEARN FINANCIAL, LEGAL, AND NEGOTIATING SKILLS OF THE JARGON OF THE PRIVATE SECTOR.

BUSINESS NEEDS TO LEARN AND UNDERSTAND THE LEGAL AND FINANCIAL CONSTRAINTS UNDER WHICH GOVERNMENT WORKS.

AGAIN, WE APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE THE PANEL AND WOULD WELCOME ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

SERVICE DELIVERY ALTERNATIVES: THE EXPERIENCE IN HENNEPIN COUNTY

Comments by Hennepin County Commissioner Randy Johnson

I. Extent of "Purchase of Service" from Private Vendors in 1981

A. Community Services Department (1981)

Total Budget- $76,481,905
Total Staff- 1009 F.T.E.
Contract Budget Total- $35,929,000
Number of Contracts-233 contracts

Summary of Contracted Providers:

Area	Number of Providers	Amount of Annual Contract
Day Care	76	$5.2 Million
C.D.	38	7.0
M.H.	14	1.6
M.R.	18	5.0
Residential (Children)	36	8.7
Homemaker	11	2.5
Specialized	40	5.9
TOTAL	233 Contracts	$35.9 Million

B. Court Services (1981)

Total Budget- $14,067,576
Total Staff- 386 F.T.E.
Contract Budget- $1,161,062
Number of Contracted Providers: 10

C. Community Health

Total Budget- $2.2 Million
Total Staff- 81 F.T.E. (includes 17 non-permanent grant employees)
Contract Budget- $400,000 County tax funds
+1,800,000 Grant funds not reflected in total budget.
Number of Contracted Providers: 46

II. History of Social Service Contracting

III. Sophistication of Purchase of Service ("POS") Procedures

A. Ten considerations for decision to purchase service or provide it directly.

III. B. Criteria for use of Request for Proposals ("RFP"), once decision has been made to contract.

C. RFP process.

1. Determine specifications.
2. Distribution of RFP.
3. Providers conference.
4. Proposed review and analysis.
5. Criteria for selection (should be predetermined).
6. Selection of Provider--staff recommendation and Board approval.

D. Contract negotiation after general acceptance of provider.

E. What goes into a POS contract.

F. Contract management

1. On-site monitoring.
2. Expense report reviews.
3. Accounting system reviews.
4. Program evaluation.
5. Technical assistance/consultation.
6. Provider meetings.

G. Factors in determining whether to renew or terminate a contract.

IV. Advantages of Purchase of Service and Specific Examples

A. Service expectations are specified in contract.

B. Services may be more accessible to clients in that agencies are geographically distributed and perceived as "non-governmental" and therefore non-bureaucratic.

C. Services are provided by agencies with roots in the community and a better understanding of community needs.

D. Community support develops for private service providers.

E. Service innovations are more likely.

F. Greater flexibility in adjusting service mix to changing need.

G. Ability to terminate contracts and/or switch providers.

H. Costs may be lower.

I. Allows the County to take advantage of market place rates in certain program areas where there is a private market for services.

J. Contracting with existing social service agencies supports rather than supplants the tradition of volunteerism in social services.

V. Disadvantages and Problems with Purchase of Service

A. County may have limited ability to affect quality of service provided by independent contractors short of contract termination.

B. County may have limited ability to terminate contracts because of political weight of private boards.

C. Difficulties with public employee unions.

D. Overdependence by either contracting party.

E. Decisions to contract are sometimes made because of an appeal by a provider for funding rather than based on defined service needs.

VI. Current Issues/Future Outlook

A. Calculating true cost of contracting vs. direct service delivery.

B. Union issues.

C. Federal funding incentives sharply reduced.

D. Types of contract-

1. Direct grant.
2. Cost-reimbursement.
3. Unit-rate.

E. Independent contractor issues.

F. Program evaluation.

7/24/81

Senator Durenberger. Our next witness is Michio Suzuki. He has been Deputy Director of the Office of Program Coordination and Review in the Office of Human Development Services in the Department of Health and Human Services since September of 1980. The Office of Program Coordination and Review is responsible for coordinating elements of the various social services programs which are administered by OHDS. It also handles the Federal administration of social services under title XX, the single largest Federal social services program.

We welcome you here today and look forward to hearing your observations. You have been involved in the Department with some of these social services programs, in one way or another, since the inception of title XX. Thank you for being here.

TESTIMONY OF MICHIO SUZUKI, DEPUTY DIRECTOR, OFFICE OF HUMAN DEVELOPMENT SERVICES, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Suzuki. Thank you, very much, Senator Durenberger, for the opportunity to participate in today's forum. We have submitted a written statement, in the interest of time. I am not so sure I am pleased that it will be printed as it is.

I am here today representing the Office of Human Development Services, which is headed by Assistant Secretary Dorcas Hardy. I must emphasize that the Office of Human Development Services is one of the many operating divisions of our bureaucratic conglomerate called the Department of Health and Human Services. In emphasizing that, I would like to stress that I am really limiting myself to the activities of this office, which is the social services arm of the Department. The components of the Office of Human Development Services are the Administration on Aging; the Administration on Children, Youth and Families; the Administration for the Developmentally Disabled; the Administration for Native Americans; and the Office of Program Coordination and Review, which administers the title XX program.

As our staff talked about the subject of alternative service delivery, we began to discuss the variations on what might be thought of as "the standard method of delivering services." As we examined what happens in our Office of Human Development Services, in representing these five major program areas, we quickly recognized that we really do not have a single standard method of delivering services. For example, the Head Start program is a Federal program with grants being given directly to local community action agencies and other agencies to provide educational services for disadvantaged children. What you see operating is a nonprofit organization, a local government, or a variety of other institutions actually delivering the Head Start program.

The Administration on Aging works through State agencies and area agencies. Again, the grants go down the pipeline. The service delivery mechanism could well be a nonprofit nutrition program for the aging, for example. Our Administration on Native Americans makes grants to tribal organizations—literally to tribal governments—to promote social and economic development, as well as making grants and contracts with urban Indian organizations.

Just to illustrate further the multiplicity of delivery systems, I would address myself briefly to title XX, which is the single largest program within the Office of Human Development Services, totaling over $3.5 billion, perhaps closer to $4 billion, in social services, delivered through a Federal, State and local government, private-provider mechanism. Under this program, the Federal funds are granted to a single State agency which has overall responsibility for the program within a given State. These State agencies typically provide some of the services directly, either through their State or county staff. However, the major portion of title XX dollars is spent through the purchase of services where the State, or county agency acting for the State, contracts with other agencies to provide the services. Not only is the private sector involved in the purchase mechanism but so are other public agencies at the State, local and community levels, as well as traditional nonprofit voluntary agencies and for-profit service providers and individuals. Thus, I am underscoring that in title XX, as with other social services programs under the Office of Human Development Services, the private sector—the nongovernmental sector—is very much a factor.

When we examine the title XX program, over 60 percent of the service dollars are delivered through the purchase mechanism. Roughly half of the first level of contracts is with other public agencies—such as the Welfare Department, which is a title XX agency and which, typically, is purchasing from a mental health agency or a rehabilitation agency. The other half of the purchasing is from private, for-profit and non-for-profit agencies.

When you look beyond the first public-to-public purchase, you will see that the actual delivery is then contracted through a private network of agencies. For instance, in Illinois the Department of Public Aid is the title XX agency which purchases from the Department of Family and Children Services. Over 40 percent of the title XX program—something approaching $2 billion worth of service delivery dollars, through the 51 jurisdictions—is delivered through to the private sector.

When we talk about our agency looking at the private sector, the nongovernmental sector, obviously our first conception of that sector is as providers, as sellers of service. Quickly, as we interact with that sector, our next view of the private sector is as employers.

We have outlined in our statement a number of activities on which the private sector affects the lives of people relative to their social service needs. For example, what is now called "flextime"—or alternative work schedules—often has a tremendous impact on how employees can gain access to some of their social services needs.

We also recognize that there are specialized programs which our Department, our agency and other public agencies support. Other witnesses referred to such services this morning—for example, employee counseling services.

We have been exploring and discussing the utilization of highly developed informational system capacities of corporate structures.

These might be adaptable at relatively low cost to provide social services information, which in turn would help the communities.

Another, often cited service for employees is onsite day care. There have been some historical experiments with the provision of this type of day care and there are some difficulties with it. Some companies are now beginning to substitute the provision of transportation vans for the employees' children to access existing day care sites.

I won't belabor the point of the private sector being not only the provider of services but also the employer of people who use social services.

In closing, I want to address what I think are the new developments that are happening in the Office of Human Development Services, and characterize this not so much as something we have accomplished but as an approach that we are just beginning to fully explore. For the lack of a better term, one might characterize this as the Office of Human Development Services' attempt to begin a partnership program. We are now looking at the private sector not just as a seller of service, not just as an employer, albeit a major employer in this country. We are really beginning to see if there are new ways in which the private sector can interrelate with the public sector in this country, particularly in the area of social services.

This administration has recognized that there needs to be changes in the Federal legislation which undergirds many of our major programs. I won't go into that in any detail here because I am not really sure what has happened on our block grant proposals, Senator. However, there has been a growing concern about the problems created by our categorical approaches. The administration has been recommending several approaches. I am sure that we will remain aware of the need to reduce the rigidities between the categorical programs in order to give State and local entities greater flexibility to meet their populations' needs.

Getting back to this new approach, I would like to say that we are groping with it. There are probably three terms used to describe this new approach. You talk about alternative service delivery as being the focus of this 3-day forum. In our office we are hearing three titles or initiatives repeated. People in some offices are pushing for what is called nontraditional approaches. What that really means is that we should try not to always answer the same service needs with the same approach that we have used before. It can cover everything from the funding approach to the relevant regulations, but we will try to find ways of responding to needs not necessarily in the manner we, as bureaucrats, have been doing it for the last 12 to 20 years in this field.

Aside from the initiative which has been called the nontraditional, we have another proposal which is now under active consideration. We have labeled this proposal the private sector initiative, which is really undergirding an attempt to develop this partnership. I won't go into much detail here. However, I do want to say that we have been examining various ways in which our discretionary funding and some of our activities can be used to facilitate opportunities at the Federal, State and community level for interaction between the private sector and the public sector. There is much discussion about who takes the lead in this initiative. We feel that, perhaps, some of the resources we have can be made available through the Federal, State and community mechanism to facilitate this effort.

The last area I want to mention is an initiative about which we are trying to educate ourselves. Perhaps, it seems strange for a service agency to talk about it. We are talking about using nonservice approaches to address local social services problems. What we mean—and I make no pretense to be an expert—is that we are working with the Social Services Research Institute and other nonprofit organizations to really examine whether an agency like ours cannot only look at nontraditional ways of involving the private secctor, but also explore what might be called nonservice strategies to meet needs. I will just quickly tick them off.

First, we have been using the government's regulation and deregulation process to affect service needs. One example would be the modification of single-family residence zoning laws, if there is a need to permit what I think in England is called, the granny flats, or inlaw apartments.

There are things in our tax policy that have a service impact especially for elderly citizens, such as the delay of property taxes until a house is sold. Some other areas would be administrative reform mechanisms, public-private collaboration, promotion of self-help and advocacy. These are some things the private sector can be doing.

My time is up. Again, I would state that what I tried to emphasize in this last portion is that we are moving ahead in examining new ways in which our agency can be active. I think the critical issue is not to do more of what we have been doing but to begin to look at alternative ways; and, as I said earlier, it is important even for a service agency to begin to talk about nonservice approaches.

Senator DURENBERGER. Thank you very much. I appreciate the overview of what you are doing in that area.

We will start, perhaps appropriately, with Brian O'Connell for the next round of questions.

Mr. O'CONNELL. Thank you, Mr. Chairman.

Because my question will seem to suggest the opposite, Mr. Suzuki, let me say that I personally believe wholeheartedly in pluralism and dispersion of activity. However, with an insider's view, it seems to me that the dilemma is because we tend to create a multiplication of service deliverers—some government agencies, some proprietary organizations and some private organizations—in the belief that this gets down to the local level where people are. I am sure you would acknowledge that the current pattern is unmanageable. It is hard to make anybody accountable. It is terribly difficult to coordinate.

Bring into that system, for example, a person discharged from a mental hospital who has a multiplication of needs: Housing, mental health services, employment, income maintenance, and on and on. That person comes against this system and is absolutely bewildered. There is no one who seems to be accountable. Indeed, the system seems to take his or her needs one at a time and drops them, assuming that through some omniscience this person will know where to turn next.

My dilemma is, how in the world can we make such a patchwork system accountable and manageable for the person who has severe, multiple needs?

Mr. **Suzuki**. I think the direction that I have been describing does lead to a multiplicity of systems and subsystems. I think that it is very clear that for the vulnerable individuals—the people who do need help to work their way through that system—there is another subsystem established, even in this material about the nonservice delivery.

There is an emphasis in some States, in some areas, on the development of trained volunteers who can work with the mentally impaired or the very frail elderly, to help them gain access to services.

I think if we created a single unitary system which would cover housing, medical, social services, and economic needs, and which could somehow be coordinated all at one focal point, it would boggle the mind. The reality is that we do have this multiplicity of systems. I think the issue is whether that multiplicity of systems can somehow begin to interact with each other. I think we tend to go it alone. Even within the public system, we each go our own way. We need to develop these interchanges.

I think what you describe is a problem. However, I think we have to recognize that it will never come to a point where either a single government agency or a single private agency can totally cover that whole range. Maybe ombudsman is one of the phrases used to describe this. Some kind of advocate system probably has to be developed for those individuals who are vulnerable.

Mr. **O'Connell**. Thank you.

Senator **Durenberger**. Mel?

Mr. **Gray**. I will pass.

Senator **Durenberger**. Charlie?

Mr. **Schultze**. I will pass.

Senator **Durenberger**. Verne?

Mr. **Johnson**. I just want to make a comment more than anything else. I am tremendously pleased to see the kind of tone you used as you made those remarks because I think that is totally consistent with everything we have been hearing in this forum. If we could begin to open our minds in this way—I don't think anybody has a solution yet—but I think we are beginning to open up some very good avenues. It sounds to me like your remarks were totally consistent with that change of attitude, which is necessary.

Senator **Durenberger**. Not your typical bureaucrat, is he? [Laughter.]

Mr. **Johnson**. No.

Senator **Durenberger**. Thank you very much.

Mr. **Suzuki**. Thank you.

Senator **Durenberger**. I very much appreciate your coming here. I appreciate what you are doing over there.

Mr. **Suzuki**. Thank you very much.

[The prepared statement of Mr. Suzuki follows:]

PREPARED STATEMENT OF MICHIO SUZUKI, DEPUTY DIRECTOR, OFFICE OF PROGRAM COORDINATION AND REVIEW, OFFICE OF HUMAN DEVELOPMENT SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES

I would like to thank the Senate Subcommittee on Intergovernmental Relations for the opportunity to be here today. My name is Michio Suzuki and I represent the Office of Human Development Services in the Department of Health and Human Services. OHDS is responsible for many of the Federally-funded social services programs.

The notion of Alternative Services Delivery seems to imply a variation on standard methods of delivering services. Within the programs of the Office of Human Development Services, however, there is no single standard method of delivering social services. Under the Headstart program, grants are made directly to local community action agencies and others to provide educational services to disadvantaged children. The Administration on Aging, a component of OHDS, operates both through State and Area Agencies on Aging. Our Administration for Native Americans provides both social services and economic development assistance to tribal organizations on Indian reservations and to groups of urban Indians.

Under title XX of the Social Security Act, the program which is the largest single source of Federal funds for social services nationally, a wide range of methods is used to provide over $3 billion worth of services. Under this program, Federal funds are granted to a single State agency that has overall responsibility for the program. These State agencies typically provide some social services directly to the people who need them. But a major portion of the title XX services dollar is spent for purchased services—where the State agency contracts with other agencies to provide services to the people who need them. States may extend purchase of services contracts to other public agencies, to non-profit voluntary agencies, to proprietary service providers, and even to individuals. For example, homemaker services, or in-home services—where someone takes care of certain household responsibilities for someone else who is unable to do so on their own because of age or disability—often make the difference between independent living and costly institutionalization. The cost to the government of a purchase of services contract for homemaker services is obviously far less than the cost of institutionalization—and given the choice most people would prefer to remain as independent as possible for as long as possible.

The private sector—the non-governmental sector—already has a major influence in the delivery of services under title XX. Some 60 percent of title XX funds are spent for purchase of services contracts—about half to other public agencies and half to private or proprietary groups. But some of the funds contracted to public agencies are in turn subcontracted to private groups, so we estimate that the current flow of title XX funds to the private sector is somewhere around 40 percent. And that number has been steadily increasing over the last several years.

The interest in social services is not limited to voluntary agencies and profit-making service providers, however. Many companies have lately begun to experiment with programs to help their employees meet their outside family and community responsibilities, because they have found that this helps increase productivity by reducing tardiness, absenteeism and turnover of staff. The examples that come readily to mind include flextime, increases in part-time positions and other efforts with alternative work schedules. We believe that tremendous potential exists in helping companies arrange for their employees to get the kinds of services they need.

The social changes over the last several decades have altered the nature of the workplace. Technological changes have made some jobs obsolete while opening entirely new areas of employment, leading to greater geographic mobility as workers follow jobs. Also, the greater number of women in the workforce—many of whom have family responsibilities—has created a greater demand for employers to assist their staff in securing essential services.

Some companies have responded to this demand in innovative ways. A few on-site day care centers have proven successful. Other companies have encouraged volunteerism on the part of their employees by excusing them from a certain amount of work time each week. Further developments are feasible and should be encouraged.

We could, for example, promote the development of employee assistance programs in the workplace so that employees can more quickly deal with emergencies in housing, transportation and family crises. Through cooperative efforts between the public and private sectors, itinerant human service specialists could rotate to various job sites to provide services. Many companies already have highly developed information systems, which could be adapted at relatively low cost to provide information to employees about services available in the community. As an alternative to on-site day care, companies could provide vans or other vehicles to transport the children of employees to nearby day care sites. Vans could also be used to provide transportation services to employees in areas where public transportation is inconvenient.

None of these innovations would be without cost. However, the productivity benefits, coupled with a company's strengthened ties with the community, might well outweigh the short-term investment.

By the same token, public social services agencies must respond to the changing needs of individuals. Too often social services—if they are available at all—are offered only during working hours. In families where both parents must work, receiving social services may mean that one parent or the other must sacrifice some work time and pay. The provision of social services during evening hours is one relatively simple innovation that might reap large benefits.

The position of the Office of Human Development Services is that the well-being of the public is primarily the responsibility of individuals, families and the community in which they live. We have already discussed how title XX can help individuals and families to help themselves. Yet we too often overlook networks of people who help each other within communities, networks that could do an even better job with minimal assistance.

These kinds of networks include churches, schools, social and fraternal organizations, labor unions and service clubs. Many organizations already have community outreach responsibilities that could be made more efficient by coordination and support from the public sector. To give only one example, local school buildings might be used to provide after-school day care. These after-school centers could reduce their staffing costs by attracting volunteers from churches and senior citizens organizations. Staffing costs could be further reduced by coordinating the center with youth training programs—perhaps offering credit for internships with child care courses.

We expect State and local governments to take the lead in Alternative Service Delivery. State and local governments are aware of the problems in the community and of the community resources that could be used to remedy those problems. It seems that in discussing Alternative Service Delivery we are really talking about creativity—doing things in a different, and hopefully better way than they have been done before. However, unless State and local governments have flexibility to try new and different ideas, creativity can be stifled.

For some time there has been a growing recognition of the problems created by separate categorical programs. Under legislation proposed by the Administration, rigid separation of categorical programs would be eliminated.

We also expect that the removal of Federal program requirements in favor of State and local decisionmaking will help to achieve closer cooperation between the public and private sectors. New legislation proposed by the Administration, the Social Services Block Grant, will provide this necessary flexibility. Under the block grant, State and local officials will be in a much better position to take action where previously mandated conflicting program requirements and overlapping services have resulted in a waste of service dollars. The block grant program will also eliminate requirements for States to match Federal expenditures with their own funds or with private funds. We expect that this provision will allow States greater flexibility to extend contracts to private service providers.

On the Federal level, we can investigate new and innovative ways of delivering services, and share the information and techniques among the States to improve the effectiveness of social services programs. As the States are better able to coordinate service delivery, the block grant will enable the Federal Government to coordinate the information and assistance activities that support the States.

To further encourage the participation of the private sector we are proposing a series of demonstration programs—a "Partnership for Human Services"—that would require that proposals for some demonstration projects include an active partnership with the private sector in the management or delivery of human services. We hope that this program will produce models for working with the private sector that could be developed and transferred to other parts of the country.

Senator DURENBERGER. Our final witness is Dr. E. S. Savas. Dr. Savas is the Assistant Secretary for Policy Development and Research for the Department of Housing and Urban Development.

Prior to coming to HUD, Dr. Savas was a professor of public systems management and director of the Center for Government Business Studies at the Columbia University Graduate School of Business. Born and raised in New York, he was the first deputy city administrator of New York under the Lindsay administration. He was manager of urban systems in the IBM Corp. and has an M.A. and Ph. D. from Columbia University. He has edited a book on the subject of alternatives for delivering public services. He has also written several papers and delivered numerous lectures on the subject.

I am hurrying because he is trying to shepherd the HUD appropriations bill through the U.S. Senate. Please proceed, Steve.

TESTIMONY OF E. S. SAVAS, ASSISTANT SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. SAVAS. It is an honor and pleasure to appear before this subcommittee to discuss the role of public officials in encouraging and implementing alternative service delivery systems. This is an issue which has occupied much of my time and attention in both the public and private sector.

Two months ago, the Joint Economic Committee released a survey of 275 cities. It showed that many large cities do not have balanced budgets and have been operating with deficits. The report concluded that the Federal budget cuts would push an increasing number of cities to the brink of fiscal collapse.

I strongly disagree with that bleak assessment. In fact, with strong leadership, cities can become far more self-reliant than they are today. Cities can become the masters of their own destinies, regardless of the level of Federal support.

I believe, and my own prior experiences support this belief, that one of the surest and most proven methods of restoring the financial independence of our cities is to terminate unnecessary public monopolies and to introduce alternative competitive service delivery systems. Such systems can allow cities, and indeed any government unit, to do more with less.

There are seven major alternatives to the conventional method of providing public services using public employees, and I want to briefly go through these seven alternatives. The first is contracting out for the purchase of services. Governments are increasingly contracting with private firms and nonprofit organizations for service delivery.

The second alternative method is franchising. This is especially suitable for providing public utilities, such as electric power, telephone service, cable television, taxi and bus transportation. There are other examples of franchising. Recreation facilities, for instance, lend themselves more to franchising instead of operation by local governments.

The third method is the grant system. Under a grant system, a subsidy is given by the government to a producer, typically by direct grants of money and often by grants of tax exempt status. Some examples would include the government-induced housing by the private real estate industry as distinguished from public housing. Some other examples would be subsidized mass transit, health care, and grants to cultural institutions. Those are all examples of providing services through grants instead of by direct government support. It is hard to envision government "performing arts" groups or government "ballets." However, these do exist in some countries.

A fourth method is a voucher system. Like the grant system, vouchers are designed to encourage the consumption of particular goods. Unlike the grant system, however, the voucher system subsidizes the consumer—in this case, the cities—and permits him or her to exercise relatively free choice in the marketplace. Food stamps, tuition vouchers under the GI bill, and medicare and medicaid enrollment cards are examples of one form or another of voucher systems. Perhaps some day we will see housing or rent vouchers for low-income people.

The fifth method, free market, is very obvious what it means. A moment ago, Mayor Latimer described how it works with respect to refuse collection in St. Paul. Basically a free market system is used. Each individual household then makes its own arrangement for having its refuse picked up by a private firm, and it pays that private firm directly.

Another important alternative method is voluntary service. Many services which are provided by government in some communities are available in other communities through voluntary collective agreements by free participating citizens. Some examples would include the safety patrols in some of our large cities; fire protection and recreation facilities such as tennis courts, golf courses, and swimming pools. Ninety percent of all fire departments in the United States are voluntary fire departments.

The seventh and final alternative method is self-service. This is the most basic service delivery mode where individuals, businesses, and groups provide their own services. The family is a self-service unit, for instance. It is the original and most efficient department of health, education, welfare, and human services. Taking an aspirin instead of going to a county hospital is a form of self-service; so is bringing one's garbage to the town landfill. Installing smoke alarms and fire extinguishers in one's home also are examples of self-service.

Some of these alternatives are very, very efficient. For instance, in the last 7 years, seven major studies have been conducted in the United States, Canada, and Switzerland comparing public and private refuse collection. This is a relatively easy one to study; you can count or measure things. It is a subject you can really sink your teeth into, so to speak. Industrial engineers are forever studying it. There have been five major studies in the States, including nationwide ones, one restricted to the Midwest, one restricted to New England, and several others.

These studies have overwhelmingly concluded that companies operating under municipal contracts collect residential refuse at a much lower cost than city agencies do. Municipal collection is 29 to 37 percent more expensive than contract collection. However, the contract price includes the cost of taxes that the private firms pay. Therefore, the contract price includes a rebate which ultimately goes back to the citizen consumers in the form of taxes for other services.

If you were to try to equalize the analysis—you are comparing apples and oranges here—if you compare not the cost of government service to the price of contract service but the cost of government service to the cost of private service, the disparity becomes even more striking. If you subtract out the taxes paid by private firms and if you subtract the profits that they earn, then you find that municipal service is 61 to 71 percent more costly than the cost of producing the private service.

Now, why is this the case? The answer is not that the human beings who work for the government are somehow inferior to the human beings who work for the private sector. I wouldn't dare say that with a Senator, a mayor, and various other government officials here in the room. No; government employees are no worse and no better than private employees.

Basically, the explanation is not a public versus private comparison but monopoly versus competition. To the extent that too many or an unnecessarily large number of our public services are provided in a monopoly structure, it is very, very difficult for the citizen-taxpayer to make out well under this tax system.

In fact, a more careful analysis of the findings I have just mentioned show that this very, very large difference of 61 to 71 percent more costly public employee service delivery is due to three major factors—in the case of this particular service, residential refuse collection. First, is over-manning. Governments use more employees to do the same amount of work. Second, there is a far higher level of absenteeism in government than the private sector. Third, the equipment used by government is basically inferior to that used by the private sector in this service.

In meetings with various public officials, and in discussions with mayors and others, the public officials have said: "If we would just do the same thing the private sector did, we would be just as efficient." To which my response is, "Yes, of course; except you just can't do it"—for a variety of institutional reasons. The kinds of impediments Mayor Latimer referred to just somehow seem to happen.

I should also make a comment with respect to unions and the role of unions in this picture. Let's remember that, in most cases, the private firms are also unionized. In fact, savings are not achieved by paying lower wages to private employees. That is not the case at all. In fact, in the most comprehensive of these studies, it turned out the private sector was actually paying higher wages than the public sector and lower fringe benefits. The difference was in productivity—in the amount of work performed per individual, less absenteeism—the productivity difference, and in the kinds of vehicles being used.

More and more cities are deliberately introducing competition to break the stranglehold of their municipal monopolies. They are doing this in a very explicit and open manner. The effect, thereby, is to increase public control over public moneys.

I was a little bit distressed from what I heard earlier in the discussion—that there was not enough focus on the citizen taxpayer, and we should make sure that the citizen gets a good break, not only the public employees.

In the examples I have studied, where privatization of contracting has taken place, it has been done in a very humane, very gentle process, with the ultimate agreement of the municipal union involved. Actually, in some cases, the same local union represents the same human beings both in the public sector and subsequently in the private sector. I recall quite vividly that this was the case in Illinois.

In any event, more and more cities are introducing competition.

A recent article, which is attached to my presentation, looked at competition between public and private service delivery in six major cities.[1] Included among those six cities are Minneapolis, Senator Durenberger's hometown; and Kansas City, which Senator Danforth—a member of this subcommittee—represents. Basically, the study showed that competitive systems did the following: increased efficiency, decreased vulnerability to employee actions, decreased vulnerability to contractor failures, protected against monopolistic behavior of contractors and of municipal employees—a private monopoly is no better than a public one—provided dual yardsticks for measuring and comparing performance; and provided more substantive knowledge and understanding of service delivery so that the city could more effectively and efficiently manage its business.

The approach that has been used in many cities—not only in the United Statess but abroad as well—is to break up cities into districts, shrink the size of the municipal work force servicing the area—in other words, doing only some of the district rather than the entire city—and to let other services be handled by contracts. Oklahoma City has done this. That organization, public or private, which bids the lowest price in each district got the work. It worked exceedingly well. After several years, in the first go-round, two out of five districts were contracted out to the private sector. Subsequently, in another round of bidding—it worked so well they bid it again 2 years later after the contracts had expired—three of the five districts were contracted out to the private sector.

Montreal, which has honed to a very fine degree—and, in my judgment, has perhaps the most efficient and effective public works system in the North American continent—has worked it out, over the years, where the public sector has been reduced in size to cover only about 10 percent of the city in several public works functions. The rest of the work is done by a variety of very, very small contractors. Very brisk and efficient bidding takes place every 3 years for contracts. The beneficiaries are the people and the public in Montreal.

With the permission of the Chair, I would like to insert a couple of studies that are attached to my presentation.[2] These studies, as well as several others, underscore the weakness of the monopoly nature of municipal agencies and, at the same time, highlight the advantages and desirability of competition in providing such services.

When you introduce the element of competition into the delivery of public services, you give the government manager greater options and authority and more control and flexibility. It may be the mayor, the city manager, the commissioner, the director, or whatever the title is—you give him more control and flexibility. In fact, it protects the public against collusion by the private sector and, in effect, protects many large city residents from being victimized by the public sector.

By constantly balancing these arrangements, as is done so well in Minneapolis, the public benefits. Minneapolis is a particularly good study. Over a period of years, the cost of a particular municipal service, measured in constant dollars, was actually declining because of the introduction of competition and the very assiduous and effective use of competitive yardsticks. There aren't very many cities in the United States that can point to those kinds of reductions in constant dollars in the cost of providing services.

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[1] See p. 351.
[2] See p. 358.

Local officials have many alternatives of service delivery, and so do those at the Federal level. At the Federal level, for instance, the Postal Service operates a monopoly which forces Americans to pay sharply increasing costs for services. We have examples of other organizations which delivery mail. The United Parcel Service is one case in point. I am not here to advertise their wares, but they can be thought of as an alternative delivery for certain kinds or certain classes of packages. As a matter of fact, they turn out to be more efficient and effective than the Postal Service. The increases in the cost of first-class mail have been accompanied by frequent public outcries on the quality and efficiency of mail service delivery. Perhaps we should permit and encourage private mail services to assume more of the workload. This is just one example where Federal officials may ultimately look to the public sector for service delivery.

Before closing, I would like to return to New York City where I grew up and spent much of my professional career. It is my belief that, for New York City to survive and prosper, it must pursue an urban strategy with three major goals: Balance revenues and expenditures, build up the city's economy, and improve the quality of life. I would like to include in the record a copy of my lecture, "A Strategy for New York City."[1]

To balance revenues and expenditures, and increase productivity, city officials should contract with private firms to perform at least a portion of some services. In refuse collection alone—the area easiest to analyze—I estimate that New York City could save $75 million a year.

In summary, alternative service delivery systems are workable and efficient. They induce desirable competition and help the government do more with less. Government officials at every level can and should pursue these various alternative methods to provide a wide-ranging array of services to their citizens.

In the Office of Policy Development and Research, in HUD, we are vigorously pursuing this entire area of alternative service delivery at both the municipal and submunicipal—neighborhood—levels. Our intention is to help local governments take advantage of these well-tested concepts and put them to greater use in improving the lot of their citizens.

It has been an honor to participate in this forum. I thank Senator Durenberger and the subcommittee for this kind invitation and for their patience. I compliment the subcommittee and its staff for convening this forum. It is my hope that it will have a significant impact on the thinking of the public officials at all levels of government.

Senator DURENBERGER. Thank you very much, Steve.

Mel, we will start with you this round.

Mr. GRAY. Much of what I know about public service alternatives I have learned from what you have written. I am pleased to have the additional examples of that. My resource librarian is pleased also.

You have covered the bases so very well, over the past few years and today, that it is difficult to identify any specific area which is yet unclear. I will ask a general question then, drawing upon your background in both the public and private sectors and the academic world.

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[1] See p. 385.

When combining all of those perspectives, how optimistic are you that we will make substantial progress in this regard in the very near future?

Mr. **Savas.** I am extremely optimistic because I see what has been happening throughout the United States and, indeed, throughout the world. Nations and governments which had not thought of these kinds of methods are beginning to look to these kinds of alternatives. In the United States, very simply, the pressure to produce balanced budgets is forcing people—despite the political obstacles encountered and the political inconveniences involved—to do this sort of thing.

I am particularly impressed, for instance, with Mayor Ken Gibson and with the city of Newark, which has some of the most difficult problems of any major city. Mayor Gibson, confronted with a desire to maintain high quality public services but to do so at a minimum cost, has been systematically introducing competitive means of service delivery. He has done it, again in the most easily measured areas, in refuse collection and in street cleaning. He has done it in street-tree maintenance. He has done it in building demolition work where, I understand, he has achieved about a 75-percent reduction in cost.

With these pressures, and provided these pressures continue, I think we will be seeing more and more of this sort of thing. There is already a movement in this general direction.

Just in the last few years Oklahoma City, New Orleans, Newark, and many, many other cities have moved in the direction that Minneapolis established in this decade. Minneapolis started in about 1972 or 1973. Montreal is outside the United States, but it is a splendid example. In fact, many Canadian cities have been and are doing this.

So, I am optimistic about the change. The pressure has to be public pressure to maintain the level of services, yet to do so at a lower cost. In a sense, any fool can cut the budget by cutting services. The trick is to maintain the services and to maintain the quality of life in our communities but to do so more efficiently, more effectively, and more productively.

Mr. **Gray.** Thank you.

Senator **Durenberger.** Charlie?

Mr. **Schultze.** I don't really have a good, pointed question. Let me ask a fuzzy one. [Laughter.]

Singing the same song I did earlier this morning, have you given any particular attention to the problem of writing contract terms? That is, even refuse collection has more than just picking up the garbage.

Mr. **Savas.** Yes, indeed.

Mr. **Schultze.** As you extend this, you get into more and more difficult areas, particularly as you extend into social services. I wonder if you have given that much attention.

Mr. **Savas.** Yes; you are quite right. Contracting for services is not the same as abdicating responsibility. Some cities which contract for services in fact abdicate responsibility. Needless to say, that doesn't work. One has to be very, very careful about which services lend themselves most readily to this. Obviously, the more measurable, quantifiable ones are the most obvious kinds of candidates.

You need appropriate kinds of terms. You need competitive arrangements the first time around. You need the appropriate frequency of bidding, which has to take into consideration the kinds of capital investments that have to be made. So the duration of the terms of contracts will be a function of what kind of service it is. It is something like refuse collection where you are talking about amortizing vehicles, a 2- or 3-year term is quite adequate. There is a good market for used vehicles anyway.

If you are talking about a service requiring the construction of a facility, then you may be talking about different kinds of terms. You may want to treat the construction of a facility differently. Perhaps, you may want to have the government pay for and be the owner of the facility—as, for example, concessions in parks or that sort of thing, or concessions of stadiums—where the government may own the facility but a different operator may come in and out.

Each service requires its own separate evaluation as to what are the right terms, right conditions, whether it is amenable to it or not. Above all, you certainly need periodic measurements and periodic performance measurements, particularly with so many services. If you have no standard for comparison, you are at the mercy of whoever the provider is, public or private.

That is why I am so impressed with the city of Minneapolis. I don't mean to pander to your own city, Senator, but it is a superb example. In Minneapolis, every year the city engineer, I guess, produces a very thoroughly detailed study comparing the performance of the public sector and performance of the private sector. This is eagerly awaited by all parties. It is a good, accurate, fair, objective report. That is used as the base for subsequent negotiations with both the public and private service deliverers.

This kind of mechanism has to be factored in; the city has to spend a certain amount of money to do that kind of contract monitoring. My estimate for contract monitoring depends on the particular service we are talking about. We are talking about prices that range from about 1 percent to about 5 percent in the cost of the contract itself. This is the additional cost that must be borne in mind by any government agency which is contracting out. It is a very modest price and it is a proper kind of investment to make.

Senator **Durenberger**. You can pander all you want with Minneapolis as long as, in your decisionmaking, you take care of the mayor of St. Paul. [Laughter.]

Verne?

Mr. **Johnson**. Two questions: The first is to make sure I understand what you are saying.

There has been a feeling here in the last couple days, which I sense among some of the people, that these are isolated exceptions which are successful or could be potentially successful. Maybe Minneapolis, if it is successful, is not really very representative of what the real problem is in this country. Therefore, the strategy that is being talked about is perhaps diverting attention from the real battle, which is to get back to managing through the public delivery service more effectively.

I sense what you are saying, coming from New York City, is that you are predicting that great strides can be made even in the toughest areas for this kind of a strategy of contracting. Is that the way I understand you?

Mr. SAVAS. That is exactly right. One of the keys to improve management in the public sector is by taking advantage of competitive means of public service delivery and by using that as an effective managing tool, quite analogous to a manufacturing firm which is always faced with the make-or-buy decision. Do you make it in your factory or buy it from somewhere else? The public officials should put themselves in the same frame of mind. Should we buy this particular service or produce it in-house? It is a perfectly legitimate managerial question; however, our elected officials and appointed public officials have rarely thought in those terms. But it is a make-or-buy decision. Should we prune the trees ourselves or pay somebody else to do it? Et cetera.

Mr. JOHNSON. Could I ask you to comment on another major topic that has come up in the last few days here? That is, the ability to more effectively use user charges in delivering services as another way of introducing a change. Do you have any specific feelings on user charges and their viability?

Mr. SAVAS. Yes. The so-called public goods lend themselves to user charges, as identifiable recipients of a service. User chargers have a very salutary effect, relating use of service to the price it costs. So I am a strong believer in encouraging user charges for those kinds of services. You cannot envision user charges for police service, but you can certainly envision it for mass transit or tennis courts and so on and so forth. I gave examples of some places where user charges haven't conventionally been used but they can be extended.

Senator DURENBERGER. Brian?

Mr. O'CONNELL. I certainly admire what you have done and what you have put together. I very much like the direction in which you are going. I am, in candor, bothered a bit by your definiteness, only because I have learned the hard way that these things are not just as simple as I hear you describing them.

You described, for instance, making a decision whether you contract out or you do it yourself. Well, I have seen a lot of cities contract out that which someone is willing to contract to do. The city is still left with the tough, most expensive jobs. For instance, they have done some studies that if you compare the cost of Meals on Wheels programs provided by voluntary organizations, they are one-third, one-tenth, one-half the cost as the Meals on Wheels programs provided by the government. If you really analyze them, the voluntary organizations very often are willing to serve a compact area and leave it to the city to reach those who may only be out 5 miles. Therefore, the costs are considerably different.

So, I just don't think it is as simple as saying "By gosh, we put it on a businesslike basis," because these are often decisions involving human beings in need; and the city has the responsibility—as I am happy to hear you say.

Mr. SAVAS. Sure.

No; I see no contradiction. I assure you that I have not been simplistic in my dealings on this issue.

There is a basic thing which you are saying, that it is a high-cost area: either Meals on Wheels to scattered people; or you can't manage a private mail service, for example, by delivering mail to an obscure shack out in the middle of the Sierra Nevadas. The question is which portion of the work—that is why I talk about doing part of the work—

which parts could be done by alternative service providers and which ones would perhaps be too costly to do in that manner? The question is, what are the net savings to the taxpayer?

It may be perfectly reasonable to contract out or to use alternative service providers for some relatively inexpensive, easy to service area where you can get a lot of competition from the private sector to bid on it. There may be other areas which don't lend themselves to it or on which nobody is willing to bid.

The question is, what is the total cost to the taxpayer? What is the total cost to the government? A mixture of some public and some private might be the answer. Even if, on a per-unit basis, the higher cost unit is done by the private sector, that is all right, as long as the total cost is lower.

Mr O'CONNELL. Mr. Chairman, may I followup on a somewhat different question?

Senator DURENBERGER. Yes.

Mr. O'CONNELL. Today we have heard a great many examples relating to trash, sewers, and pruning trees. I think we haven't talked quite enough about education, social services, and health—big parts of the responsibilities and budgets of the States, particularly of the municipalities. Here I find myself confused as to what is the right direction to go.

For instance, John Silber, the provocative president of Boston University, says he would be happy to have Boston University take over the management of the schools in Boston. He says they could do it for considerably less. I wonder if he is really being realistic about the role of the school council. All the complexities that go into an educational system very often have purposes and values far beyond simply producing reading, writing, and arithmetic.

I would be curious to know, as you get into some of these more complex, more complicated areas—such as public education—if you feel these would apply?

Mr. SAVAS. Yes, I do. As I mentioned earlier, we have had education vouchers, tuition vouchers, in this country. The GI bill, after World War II, was a tuition voucher. It was a ticket design, but it represented an education voucher which was applicable for higher education, applicable at the postsecondary level—for trade schools, colleges, and universities. Somehow people managed to cope with the awesome responsibility of selecting their own school, deciding where to go. They received a voucher which enabled somebody to go. The entrance standards were the same in the University of Minnesota, Stanford, et cetera. Students applied and got in; but then they had a voucher.

There are two alternative ways of providing higher education, or any kind of education. You can have the government institution where you give money to the institution and the professors and give the education away free. Or you can give the money to the students and tell them to go buy their education where they want it. The GI bill opted for this approach. It worked exceedingly well and provided an education for a large number of veterans after World War II.

We have had a successful experiment for the ages of 18 and up. Now the question is, can you move it down to the secondary school levels? How far can you move it? I would argue that the fact it has been successful up there provides an argument to suggest it may work at a slightly younger age as well. It becomes just some kind of continuum—do you bring it down to high school, local schools, or so on? It seems to me that we have an experience, so we need not approach it as though it is an untried idea in Western thought that represents a totally revolutionary kind of approach.

I would argue that we need to be selective in various cities. I have argued that in New York City where the public school system has been so inadequate in serving the people of New York. Rich people and poor people do everything they can to flee from the system.

I would argue that a voucher system for education extends opportunities to poor people as well as to rich people. Already wealthier people have long been taking advantage of their own private voucher system, by sending their children to parochial schools or private schools of one sort or another. Only the lower income people are trapped in the public school system. I would argue that extending vouchers to them increases their freedom of choice, enhances their freedom of choice, and gives them an opportunity to make some judgments, selections.

I do not subscribe to the theory that poor people are stupid. I believe poor people can make wise decisions about their futures and the futures of their children.

Senator **Durenberger**. We started on this track the other day and stopped. Do you want to stop at this point? Does anybody else have any other questions?

Before we conclude, I would like to welcome to our hearing this morning the mayor of Peoria, Richard Carver. Dick, it is good to see you here again. I am sure we can count on your participation over the next few months in some of these decisions.

Mr. **Carver**. Thank you.

Senator **Durenberger**. I just want to ask you one concluding question, Steve. You are Assistant Secretary for Urban Development. From your observations, what do you sense the future national policy will be as it relates to the cities of this country?

I have spoken out at one time or another on this subject myself. When Ted Kolderie made his presentation, he talked about the fact that, as we try to solve these problems as close to the people as possible, we have traditionally spent too much time with Governors and not enough time with State legislators. If you believe that in most States, cities are not creatures of the Federal Government but of the State government, do you see a new and different future in the development of our relationships at the national level with the cities of this country?

Mr. **Savas**. Yes, I do. Obviously, you are opening up a whole, large, new topic which will be the subject of future hearings, I am sure. Basically, I do believe that we must rethink through the relative roles and relationships of Federal, State, and local governments, and regional level entities and neighborhood units as well. There is really a whole continuum.

With respect to urban policy, urban policy is not just a matter of what the Federal Government can or should do. Urban policy, which ultimately affects the quality of life in American cities, is affected by many, many different institutions and not only governmental ones. It is affected by the alternative sector, the third sector, the private associations—bowling leagues have a role to play, if you will, in the quality of life in cities, neighborhoods, families, churches, voluntary organizations, and unions. There are many, many different societal institutions which affect the quality of life in cities. Government is only one factor. When we say urban policy, we have been used to thinking about the Federal Government. Now, perhaps, when we talk about federalism, we are speaking of the Federal, State, and local governments. I would expand the set to include other societal institutions and not just governmental ones. I would definitely include the neighborhood as a legitimate entity that has a concern and a large role to play in shaping and affecting the quality of urban life.

I do see that there will be some significant changes in the way of thinking about this. I think the kind of work that you and your subcommittee have been doing expands to make possible a better, more productive way of looking at American cities. Ultimately, of course, the reliance, the self-determination, will come at that local level. That is where the talent is. That is where the initiatives are.

It is extraordinary for those who have really made it work at the local level, at the neighborhood level—I know Mayor Carver has some intriguing things going on in Peoria at the neighborhood level. I think those kinds of things bode well for the future of American cities.

The transition to change that way of thinking has to take place. It is a slow process. I think your subcommittee is accelerating it.

Senator **DURENBERGER**. Do any of the panelists have any last comments?

Mr. **JOHNSON**. Just one comment: I would like to thank you, too—as Mr. Savas has—Senator Durenberger, for what I think is a foundation hearing. It has really set a tone which, it seems to me, will send each of us back into our own communities or our activities rethinking a number of things. I know I have had some thoughts here that I didn't have before. Charlie, I suspect when you go back to your institution, it will be the same way.

In that sense, it is the beginning, it seems to me, of what we have to do—which is, to begin to rethink our basic strategy. We can no longer ultimately delegate most of these responsibilities to the government, and certainly not to the Federal Government. In fact, we are all going to have to participate more.

Steve, I really did like your suggestion that there are viable institutions out there that are not governmental, particularly your emphasis on neighborhoods. George, as you suggested, the strategy of all of this has got to begin to open up—take into consideration all of these actors, not merely as pawns who are going to implement some grand strategy. They are fully capable of developing the strategy, with perhaps the government assisting rather than developing. I think, in that sense, the holding of some hearings can really be very helpful and will lead to the kinds of directions we are talking about.

Senator **DURENBERGER**. Thank you.

Any other comments from any of the panelists?

[A statement of Mr. Gray follows:]

STATEMENT OF CHARLES M. GRAY, DEPARTMENT OF ECONOMICS, COLLEGE OF ST. THOMAS, ON THE ECONOMICS OF PUBLIC SERVICE ALTERNATIVES

THE NATURE OF THE PROBLEM

Program terminations and funding cutbacks have resulted in current and expected restrictions in the delivery of a wide variety of services to numerous constituencies. Those affected range from mayors to recipients of public assistance, from artists to residents of decaying urban neighborhoods. Among the questions facing decision makers are:

Should current service levels be maintained via other means?

What criteria are appropriate to identify deserving program participants in the face of cutbacks?

Is "reprivatization" always/sometimes/rarely desirable?

Should service delivery systems be reorganized? In what fashion?

We look briefly at how economists might contribute to answering such questions.

THE ECONOMIST'S PERSPECTIVE

In the past, economists have, for the most part, found it convenient to divide goods and services into two categories, public and private, based upon mode of provision. Those goods and services which can be produced by private firms and sold at a price and in such quantity as to cover all costs typically will be provided by the market. These are private goods and services.

At the other extreme, some goods and services will not entice a profit maximizing entrepreneur into production, owing to market failures which deny an adequate return. It may be, for example, that no one can be induced to pay for some products once they are provided, without resort to coercion. Street lighting comes to mind. Hence, private production is not forthcoming. If society regards such goods or services as desirable, one or another level of government may be entrusted with production and/or provision. Politics, rather than markets, specify the amount of such public goods or services to be produced, as well as the means of financing. We find, however, that many goods and services seem to fall in between these two extremes; indeed, most goods or services may be neither purely private nor purely public. We turn our attention to these.

PUBLIC SERVICE ALTERNATIVES

Only in the last ten years or so have economists begun to consider the theoretical underpinnings of what we will call "marketable" or "price excludable" public goods, characterized by nonrival consumption (at least up to some point) and "costless excludability." These are goods (henceforth to be regarded as including services) which when consumed by some are no less available to others, but for which a price may be charged. Examples include learning in a classroom, viewing a play, swimming in a pool, and riding a bus. Certainly markets have provided such goods and continue to do so. Often, however, we seem to act as if the market provides an insufficient quantity, requiring supplementation via public education, subsidies to artists, municipal pools, and public transportation. In such instances, the goods are termed "merit" goods, their additional provision being thought to serve the larger public interest. Scholars such as Oakland, Thompson Walsh, and numerous others have sought to determine market structures and pricing policies under which provision of such goods is tenable.

Other goods which exhibit nonrival consumption may not lend themselves to exclusive provision, that is, consumers cannot be excluded costlessly. Examples include street musicians, who rely upon the generosity of their temporary patrons, and community development, whereby residents benefit from improvements whether or not they help foot the bill. Street musicians abound, but would efforts at community development continue without direct government support? And what characteristics differentiate these two types of enterprise? Experimental evidence collected by Smith and others seems reassuring; altruism may be sufficiently strong to induce voluntary payments from beneficiaries who could otherwise be "free riders."

And what of the merit goods that the market undersupplies? Weisbrod and others have initiated research into the operation of the private, nonprofit sector. Foundations, corporations, and other sources of philanthropy may help to maintain service levels.

UNRESOLVED ISSUES

The piecemeal research alluded to above has closed some of the gaps in our understanding of public service delivery. But the extension of traditional microeconomic analysis to these issues is incomplete, and many questions remain, at best, imperfectly answered. The following suggest possible directions for further research effort:

In the absence of either profit or political motivation, what performance measures will indicate optimal service provision?

What institutional structures can feasibly provide services?

Under what conditions might short- or long-term public subsidies to service delivery be appropriate?

Has public funding or provision in some instances—e.g. the arts—displaced private funding? Or have public funds served to induce additional private philanthropy?

Might the public sector often rely more completely upon the private market? The Free Venture model of prison industries is an example deserving of further study.

RECOMMENDATIONS

The following recommendations, albeit fairly general in nature, very likely are deserving of further discussion:

Additional resources should be devoted to economic research in the delivery of public services. Studies should address the theory of joint goods supply as well as "real world" applications.

A program of technology transfer should be established. Information regarding successful program operations, such as some of those fostered by the Public Service Options project in the Twin Cities, might be disseminated by a system of "national demonstration" or "exemplary" projects.

A "Commission on Service Alternatives" should be established. Although risking bureaucratic expansion, such a commission could be charged with implementing these and related recommendations, cutting across existing governmental boundaries.

Numerous viable alternatives have not been addressed in this statement, including intergovernmental contracting and contracting for services from private vendors. These are dealt with extensively elsewhere.

Senator DURENBERGER. I thank you all very much for your participation. Mel, I thank you in particular for sitting up here all of the time.

Steve, thank you for your contribution.

Mr. SAVAS. Thank you.

[The prepared statement of Mr. Savas follows:]

PREPARED STATEMENT OF DR. E. S. SAVAS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

It is an honor and a pleasure to appear before this Subcommittee and discuss the role of public officials in encouraging and implementing alternative service delivery systems. This issue is one which has occupied much of my attention in the public and private sector, and I hope I can offer some useful recommendations.

As the many distinguished forum participants have noted over the past two days, alternative service delivery offers much promise for communities and governmental units of all sizes. Such potential is most welcome in light of today's national and urban economic problems.

As you may recall, two months ago the Joint Economic Committee released a mail survey of 275 cities and showed that many large cities did not have balanced budgets and have been operating with deficits. It concluded that Federal budget cuts would push an increasing number of cities to the brink of fiscal collapse.

I strongly disagree with that bleak assessment. In fact, with strong leadership cities can become far more self-reliant than they are today. Cities can become the masters of their own destinies--regardless of the level of Federal support.

Cities can do so by reassessing their priorities and pruning those services that are beyond the call of municipal duty.

They can do so by electing public officials and training public employees to be more efficient and effective.

They also can do so by restoring the merit principle to moribund civil service systems and by revising labor relations practices to eliminate city victimization by monopolistic municipal unions.

But I believe--and my own prior work supports this belief--that alternative delivery systems offer the best method to restore financial independence to our cities. Alternative delivery systems can allow cities and, indeed, a variety of government units to do more with less.

Public officials must be aware of these alternative methods. They can provide better, cheaper services by implementing any one or more of eight alternative methods of providing service. These models are alternatives to the conventional approach of providing public services by government units.

With this introduction provided, I would now like to discuss the eight alternative service delivery possibilities, each of which exists in the United States today.

First, there is the intergovernmental agreement, in which a government hires or pays another government to supply a service. Examples include water supply, sewage treatment, jails, police communications, libraries, animal control, resource recovery plants, public works, recreation, and education.

Such reassignment of service responsibilities between jurisdictions is increasing as a means of better handling regional problems and coping with rising costs.

A second alternative method is the contracting out or purchase of services. Governments are increasingly contracting with private firms and non-profit organizations for delivery of goods and services.

Cities have found they can reduce costs 20 to 30 per cent and improve service delivery by prudently contracting out some of their services to the private sector. This has become an excellent and well-tested vehicle for doing more with less.

In a survey of 2,375 cities with populations over 2,500, it was found that: 21 percent of the cities contracted with private firms for refuse collection; 13 percent contracted for street lighting repairs; and 11 percent for engineering services. But contracting out can include dozens of other services such as ambulance service, street paving, tax assessment and collection, zoning control, payroll processing, snow removal, solid waste disposal, bridge construction and maintenance, voter registration and the operation of senior citizen centers. In fact, the Advisory Commission on Intergovernmental Relations (ACIR) has tabulated 66 services which are provided by cities contracting out with private firms.

A third important alternative method is franchising, which is especially suitable for providing public utilities such as electric power, gas and water distribution, telephone service, cable television, and taxi and bus transportation. Other examples of franchising, which grants monopoly privileges to a private firm to provide a particular service in a specific area, are concessions in parks, stadiums, and airports.

A fourth method is the grant system. Under a grant system, a subsidy is given by government to a producer, typically by direct grants of money but often by grants of tax-exempt status. Examples include government-induced provision of low-cost housing by the private real estate industry, subsidized mass transit, health care, and grants to cultural institutions and performing arts groups.

A fifth method is the voucher system. Like the grant system, vouchers are designed to encourage the consumption of particular goods by a particular class of consumers. But, unlike the grant system, the voucher system subsidizes the consumer and permits him or her to exercise relatively free choice in the market place. Food stamps, tuition vouchers under the GI Bill, and Medicare and Medicaid enrollment cards are all examples of the voucher system in practice. And perhaps we will some day have housing or rent vouchers.

The free market method is the sixth form of alternative service. Under the market system, the consumer himself arranges for services and selects the producer, which is a private firm, and pays the firm directly. The government is not involved except to set service standards.

An example of this method is when refuse collection, mandated by a municipal government, is arranged by local households who select a private provider.

Another important alternative method, the seventh, is voluntary service. Many services which in some communities are provided by government are available in other communities through a voluntary collective agreement. Examples include safety patrol, fire protection, and such recreation facilities as tennis courts, golf courses, and swimming pools. It is interesting to note that 90 percent of all fire departments in the United States are volunteer fire departments.

The eighth, and final, alternative method is self service. This is the most basic delivery mode, where individuals, businesses, and groups provide their own services. The family as a self-service unit, for instance, is the original and most efficient Department of Health, Education, and Welfare and Department of Health and Human Services.

After looking at these eight alternative delivery systems, it is important to note that only one of these eight, intergovernmental contracting, involves a public agency delivering or providing a service. In all the others, either private business, non-profit groups, volunteers, private organizations, or individual citizens provide the service.

Some of these alternatives are exceedingly efficient. For example, in the last seven years, seven major studies have compared public and private refuse collection. These studies concluded overwhelmingly that private firms operating under municipal contracts collect residential refuse at much lower cost than city agencies do; municipal collection is from 14 to 43 percent more expensive than contract collection--and the contract price includes taxes paid by private firms to government. In effect, citizens get a rebate--in the form of various government services--even from the lower contract price.

Similarly, in an article which was published in the January/February 1981 issue of Public Administration Review, I looked at competition between public and private service delivery in collecting residential refuse in six major cities. Included in that study were Kansas City, which Senator Danforth represents, and Minneapolis, which is Senator Durenberger's hometown.

This study showed that competitive systems for refuse collection did the following: (a) increased efficiency; (b) decreased vulnerabiity to employee actions; (c) decreased vulnerability to contractor failures; (d) protected against monopolistic behavior of contractors and of municipal employees; (e) provided dual yardsticks for measuring and comparing performance; and (f) provided more substantive knowledge and understanding of service delivery.

With the permission of the chair, I would like to insert this study and another comparable one in the record. These studies are: "Intracity Competition Between Public and Private Sector Delivery," which appeared in

Public Administration Review, and "Policy Analysis for Local Government: Public vs. Private Refuse Collection," which appeared in the Winter 1977 issue of Policy Analysis.

These studies as well as several others clearly underscore the weakness of the monopoly nature of municipal agencies and, at the same time, highlight the advantages and desirability of competition in providing such services. When you introduce the element of competition in the delivery of public services, you give the government manager greater options and authority and more control and flexibility. The government official is no longer a hostage of a government monopoly. He can pursue the most cost-effective option for delivering services to his citizens.

Local officials have had many opportunities to implement alternative methods of service delivery. But it must be remembered that the same way local officials have used these alternative methods can be used successfully by their counterparts at the Federal and state levels.

At the Federal level, for instance, the postal service operates a monopoly which forces Americans to pay sharply increasing costs to have a needed service provided. These increases have been accompanied by frequent public outcries about the quality and efficiency of mail delivery. Perhaps we should permit and encourage private mail services to assume much of the workload. This is just one example of where Federal officials may ultimately look to the "alternative sector."

Similarly, state officials are lambasted--often rightly so--for the poor condition of state highways and bridges. In many states, transportation departments and their road crews have long provided "no-show" jobs and refuge for political hacks. Continued inefficient and costly waste of taxpayers' money may eventually encourage governors and state legislators to seek alternative ways of maintaining their states' roads and bridges.

Before concluding, I would like to bring my discussion to New York City, where I grew up and where I spent most of my professional career. It is my belief that for New York to survive, it must pursue an urban strategy with three major goals: (a) balance revenues and expenditures; (b) build up the city's economy; and (c) improve the quality of life.

To balance revenues and expenditures--and increase productivity--city officials should contract with private firms to perform at least a portion of some services. In refuse collection alone, I estimate that New York City could save $75 million a year.

Again, with the chairman's forebearance, I would like to insert into the record a copy of "A Strategy for New York City," which outlines my thoughts on this subject in greater detail.

In summary, alternative service delivery systems are workable and efficient. They induce desirable competition and help government do more with less. Government officials at every level can and should pursue these various alternative methods to provide a wide-ranging array of services to their citizens.

It has been an honor to participate in this forum. I thank Senator Durenberger and the Subcommittee for their kind invitation and for their patience. I compliment the Subcommittee and its staff for convening this forum. It is my hope that it will have a significant impact on the thinking of public officials, and that they will explore these alterantive models. In this way, public officials--at all levels--can help reduce government costs without reducing government services.

Senator DURENBERGER. The hearing is adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was recessed, to reconvene subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

APPENDIX

Intracity Competition Between Public and Private Service Delivery

E. S. Savas, *Columbia University*

■ Although competition is a time honored means of satisfying consumer demands for efficient and effective provision of goods and services in the marketplace, it was rarely used deliberately in providing government services directly to the public. Recently, however, this approach has been instituted and it deserves examination.

In a number of cities, both the municipality and one or more private firms provide the same "public" service to residents, namely, residential refuse collection. This study reviews the origins of such competitive systems and examines them in six U.S. cities, addressing the reasons for their introduction. It goes on to compare and contrast the six systems, and compares the relative performance of the public and private sectors within each city. The study reaches the conclusion that as a matter of local government policy, competitive systems merit more widespread use in delivering public services.

Many different institutional arrangements are used to collect residential refuse. The most common ones found in the United States are municipal, contract, and private collection.[1] In municipal collection, a city agency performs the work. Under contract collection, the city hires one or more firms to perform the work and pays them directly. Under private collection, each individual property owner hires a private firm to provide the service and pays the firm directly; the city government has a minimal role in this arrangement, usually doing little more than issuing licenses to control the transportation of wastes.

As of 1975, 21 percent of all cities in metropolitan areas of the United States were utilizing contract collection.[2] Omaha, Nebraska (1970 population: 350,000) is the largest city that has all its residential refuse collected by only one contractor. Boston (1970 population: 650,000) is the largest city in the United States that has all its residential refuse collected by contractors and uses more than one contractor. (San Francisco, with a 1970 population of 715,000, has two firms that between them collect all the residential refuse. This well-known system, which has been in effect many years, is neither contract nor private; rather, it is a franchise. Each firm has the exclusive privilege of servicing its assigned area, and it charges each customer directly at a rate that is regulated by the city. This relatively uncommon arrangement is not discussed further.)

Recent studies have shown quite unambiguously that contract collection is substantially more efficient than either municipal or private collection.[3] These findings have spurred cities to introduce contract collection and thereby to reduce their hitherto total reliance on municipal collection. This trend has resulted in the interesting situation in

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some cities where both the public and private sectors collect residential refuse. This will be referred to here as a competitive system or arrangement. (It can also be called a dual or mixed system.) In a competitive system, both a municipal agency and one or more private firms regularly collect household refuse from residences.

It should be clear that a competitive system, as defined here, is to be distinguished from the relatively common case where there is municipal collection of residential refuse and private collection, as defined above, of commercial and industrial solid waste. It also differs from the practice of having a municipal agency collect garbage (putrescible waste) and a private firm collect trash such as garden wastes and discarded bulky objects. Finally, the term "competitive system" is not to be confused with the use of competitive procedures to award collection contracts to private firms. To repeat, the term is used throughout this report only to describe the solid waste collection system in a city in which a municipal agency regularly collects household refuse from some of the residences and one or more private firms regularly collect the same kind of household refuse from other similar residences. There is both theoretical reasoning[4] and empirical evidence[5] to encourage greater use of competitive systems.

History of Competitive Systems

During the 18th and most of the 19th centuries, when refuse collection was generally not mandatory—that is, households did not have to subscribe to and were not given regular collection service—most American cities had private collection. As the problems of public health became more severe in the growing cities, municipal collection services were often formed and, therefore, there was a lengthy period when many cities had competitive systems. Unfortunately, little information survives to shed light on those systems. Generally, municipal systems expended in the larger cities and most competitive systems became extinct. Private firms in large cities were usually deprived of residential accounts and concentrated instead on commercial and industrial waste collection, trash collection (as distinguished from garbage collection), and various specialized collection functions.

In recent times the practice has re-emerged. Annexation was the first important reason for the reappearance of competitive systems. When a city with municipal collection annexed a suburban area that had private collection, rather than expand the city agency and put the private firms out of business, it was relatively common for the city to contract with the existing private firm—or a consortium of firms—to continue servicing the newly annexed, outlying area of the city. For example, this occurred in Bakersfield, California, in 1965, and, subsequently, in Jacksonville, Florida (1968).

One should note that in a sense nothing was altered by this change: the areas originally serviced by municipal collection continued to receive municipal service, while those originally serviced by private firms continued to be serviced by private firms. Basically, only the boundaries of the city changed, thereby encompassing two separate systems and creating, by definition, a dual or competitive system in the newly enlarged city.

The second major factor that led to the introduction of competitive systems was the change from separate to mixed refuse collection. It was not uncommon for cities to require households to separate their refuse into putrescible and non-putrescible waste, called garbage and trash, respectively. Municipal collection of garbage was the norm in many large cities, but the disposal of trash was left up to the individual household, which could burn it, deliver it to a disposal site, or, most often, arrange for private collection. With the ban on backyard burning that many cities imposed in the early 1970s, following federal and state legislation on environmental protection, trash collection also became mandatory and there was no longer any point in requiring separation of wastes and maintaining separate collection systems.[6] As a result, collection was combined, and, as in the case of annexation, instead of expanding the municipal agency and putting private firms out of business, a competitive system emerged. The municipal agency which had been collecting garbage from all households began collecting mixed refuse from, say, half the households, and the private firms which had been collecting trash from most households entered into contracts with cities to collect mixed refuse from the other half. Kansas City, Missouri and Minneapolis, Minnesota made this change in 1971. For this case, too, as in the response to annexation, the introduction of a competitive system generally had no harmful impact on either the public or private sector; there was no reduction in the number of employees or the income of either sector.

The implicit belief that the public interest requires public services to be delivered by public agencies has given way to the recognition that the private sector is able to deliver services effectively and efficiently while under contract to public agencies.

The third and most recent factor that is contributing to the introduction of competitive systems is the desire to increase efficiency. Montreal created such a system for this reason as long ago as 1955 but in the United States it was not until 1977, following the release and widespread reporting of the above-mentioned findings concerning the greater efficiency of contract collection, that a number of large cities started shifting to competitive systems. Oklahoma City, New Orleans, Phoenix, Nashville, Tampa, Newark, and Washington, D.C. were among the cities following this course of action since then. As of this writing, the number of such cities continues to increase, in an apparent trend.

It is interesting to note that whereas competitive systems emerged in the 19th century as a result of often-inadequate private collection systems and represented a transitional state toward greater public responsibility, now they are appearing as a result of dissatisfaction with municipal collection systems and represent a new evolutionary phase, one of greater public accountability, with sophisticated meshing of the public and private sectors.

Because of the growing importance and impact of this phenomenon—competitive arrangements for service delivery—and its potential in other services, this article undertakes to examine it. The limited number of cities using this system at the outset of this investigation made it necessary to employ a case-study approach.

Reasons for Introducing Competitive Systems

Cities have introduced competitive systems for one or more of the following reasons:

1. It is a convenient way to accommodate growth in new areas of the city and to handle annexation of surrounding territory. Instead of expanding an existing city refuse collection agency, city officials often find it administratively and politically easier to contract out for service in the new area; this does not require an initial capital investment by the city for additional vehicles, and if the same private firm is retained, the change causes no disruption to local residents.
2. Similarly, it is a convenient way to handle a large increase in the volume of waste to be collected, as when changing from collection of garbage alone to collection of mixed household refuse of all kinds.
3. For cities that previously had only municipal collection, this is a way to start taking advantage of the demonstrated efficiency of contract collection.
4. For cities that previously had only municipal collection, this is a means of reducing their vulnerability to employee work slowdowns and strikes.
5. By creating a competitive system rather than changing entirely to contract collection, a large city can reduce its vulnerability to job actions by the contractor's personnel and to failure of the contractor; by retaining some refuse collection capability in an ongoing city agency, the latter can intervene to collect refuse if the contractor is unable to do so.
6. A city with a competitive system is also protected against possible collusive, oligopolistic, or monopolistic practices by its contractor; if the latter's service becomes less cost-effective than the city's own municipal operation, the city can shrink the size of the contract area and expand the size of the area served by municipal workers.
7. By retaining some municipal service, the city has a yardstick against which to measure the performance of the private sector, and at the same time, by having some contract collection, the city has a yardstick against which to measure the performance of its own municipal agency.
8. By having some municipal collection, the city retains the knowledge and experience needed to effectively employ and oversee contract collection. For example, the city is better able to investigate complaints and judge whether unsatisfactory service is the fault of the contractor or the fault of citizens who do not store or put out their refuse properly for collection; it can better decide whether to handle the problem by enforcing container ordinances, rounding up stray dogs, or threatening to suspend a contract

Forms of Competitive Systems

The various competitive systems that exist in American cities can be usefully described in terms of four factors:

1. the arrangement under which the private sector provides service (contract or private collection);
2. the relative size of the public and private sectors: that is, the fraction of households serviced by each;
3. the degree of intermixing of areas serviced by the two sectors;
4. the number of private firms in the system.

Service Arrangement. The overwhelming majority of cities with competitive systems contract with private firms to service those households not serviced by the municipal agency. St. Paul, Minnesota is one of the very few such cities that has private collection instead of contract collection. Each property owner is free to choose one of many private firms to service his home, and pays the hauler directly. Concomitantly, the city agency, too, charges a fee for service; taxes are not used for the purpose. The situation in St. Paul is thus one of direct competition between the city and numerous private firms. The city is faring poorly in this competition: its charge in 1975 was $1.10 per week for once-a-week curbside service, compared to an average of 92 cents for private firms. Not surprisingly, less than a fifth of households chose the municipal service, and most of these were welfare recipients and senior citizens who paid only half this rate. (As a matter of policy, the city has chosen to subsidize the service for those two categories of citizens.) In other words, the city cannot compete with the private sector unless it gives away its service below cost.

Most large cities finance refuse collection through taxes and provide the service, either municipal or contract, to all households regardless of their ability to pay. It is not possible to use private collection for a tax-financed service. Therefore, contract collection is more flexible than private collection in a competitive system. The city is free to raise money for the service through taxes or through a user charge. It can levy a charge on its residents and bill them, even while it pays the contractor directly.

Relative Size. Competitive systems range in size from those in which the private sector services only a small fraction of the households in the city (for example, Washington, D.C., where contract collection is planned for less than 15 percent) to those in which it is the dominant provider (Montreal, 91 percent). A small role for the private sector is the usual way to introduce a competitive system when the objective is increased efficiency and the effect is viewed as an experiment or a trial. New Orleans abandoned its all-municipal collection system and experimented with contract collection in 8 percent of the city; after a successful experience it expanded to 24 percent. The first step for Phoenix was roughly 10 percent contract collection and then about 40 percent. Montreal contracted with a one-truck firm in 1955, and within 10 years enlarged the scope of contract collection to serve more than 90 percent of the city, while continuously diminishing the once-exclusive role of its own municipal refuse collection agency.

Intermixing of Service Areas. In many cases a competitive system is characterized by contract collection in one unique district of the city and municipal collection elsewhere. This is typically the situation where the system came into being upon annexation of an area or as an experiment to improve efficiency, as in New Orleans and Oklahoma City. While this is administratively convenient, it has an important shortcoming: the area served by the public sector is generally very different than the area served by the private sector and so comparisons are difficult or impossible to make. The areas may differ by population density, household size, area of lawns and yards, terrain, degree of traffic congestion, and distance from a disposal site. Ideally, the city should be divided into a sufficient number of small units, each unit large enough to constitute a day's work for one truck, and the units should be assigned to the municipal agency and the private contractor in such a way that, on the average, the service characteristics of the two populations are identical for all practical purposes. Minneapolis and Montreal have both followed this practice.

Number of Contractors. The private sector in the competitive system studied here is represented by anywhere from one (Akron, Minneapolis) to 38 (Montreal) contractors. Inasmuch as economies of scale are a maximum at about 50,000 population,[7] one is faced with a trade-off. A small number of contractors means that economies of scale are likely to be realized and also that the administrative cost of contracting and of overseeing the contractor will be minimal. On the other hand, a large number of contractors means more competition, and makes it easier to intermix service areas as described in the preceding section. Furthermore, if there are many private firms already operating in the area, there will be strong political pressure to spread the work among many, if not all, the firms. This factor was important both in Montreal and in Minneapolis, where it was handled in very different ways. In Montreal, one-truck areas were created and contracted out individually, making it easy for one-truck firms to bid. In Minneapolis, the city encouraged 51 separate firms to form a single corporate entity to engage in residential collection, and contracted with this newly created firm.

Five different geographic patterns that illustrate the combined effects of intermixing service areas and using different numbers of contractors are shown in Figure 1.

Case Studies of Competitive Systems

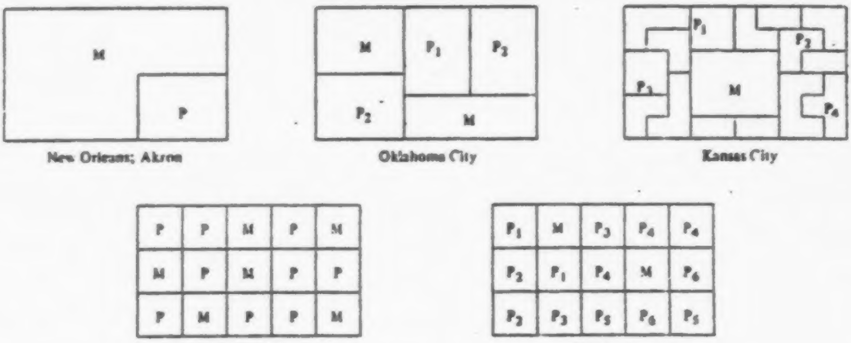
Detailed studies were conducted in six cities that have competitive systems: Kansas City, Missouri; Akron; Minneapolis; New Orleans; Oklahoma City; and Montreal.[8]

Summary data about these systems appear in Table 1. The important things to note are the wide ranges of values in the first few columns. The number of contractors varies from one to 38, the number of contract areas from one to 164, the population per area from 8,000 to 240,000, and the number of bids per area from one to 22. The figures on relative costs and productivity show that municipal collection is generally much more costly than contract collection, although not too much can be made of this because the areas serviced by the two arrangements were usually quite different.[9] (In Minneapolis, the two service areas, being intermixed, are essentially equivalent in their characteristics and so the comparison is appropriate. The table shows the two to be virtually identical in cost per unit. This is the result of a determined and successful effort by city officials to drive down the cost of municipal collection so that it matches the low cost of contract collection.[10])

FIGURE 1

Idealized Depiction of Service Areas

(M is municipal area; P_1 is area serviced by private firm P_1, etc.)



New Orleans; Akron

Oklahoma City

Kansas City

Minneapolis

Montreal

TABLE 1
Characteristics of Some Competitive Collection Systems

	Akron	Kansas City	Minneapolis	Montreal	New Orleans	Oklahoma City
Date initiated	1969	1971	1971	1955	1977	1977
Primary reason for initiation	Combined collection	Combined collection	Combined collection	Efficiency	Efficiency	Efficiency
Fraction served by contractor	21%[a]	48%[a]	60%	91%	8%[b]	62%
No. of contractors	1	4	1	38	1	2
No. of areas served by contractors	1	25	1	164	1	3
Average no. of bids per area	1	16	1	22	2	2
Population of average area	35,000	8,000	240,000	8.000	50.000	70.000
Average population per contractor	35,000	50,000	240,000	32,000	50.000	105.000
Intermixed areas	No	No	Yes	Yes	No	No
Annual cost per household						
Municipal	$50.09	$33.20	$37.78	$30.48	$23.54[c]	$57.98
Contract	$34.55	$23.86	$38.23	$23.22	$19.37[c]	$49.90
Cost per ton						
Municipal	$45.64	$37.72	$37.97	$36.19	$37.37	NA
Contract	$23.06	$19.09	$37.44	$27.60	$30.29	NA
Households per man-day						
Municipal	133	NA	NA	405	224	247
Contract	196	NA	NA	408	448	344
Tons per man-day						
Municipal	3.70	NA	2.45	3.30	NA	NA
Contract	5.68	NA	3.35 (est.)	3.55	NA	NA
Municipal/contract ratio						
Cost/hh	1.45	1.39	0.99	1.31	1.22	1.16
Cost/ton	1.98	1.98	1.01	1.31	1.23	NA

[a] Percent of municipal plus contract collection; excludes private collection, self service, etc.

[b] Subsequently increased to 24%.

[c] Comparison in same area before and after change from municipal to contract collection.

NA = not available
hh = households

Table 2 shows how the competitive systems in several large cities are organized, in terms of the number of private firms involved, the fraction of the city serviced by them, and the arrangement (private or contract) under which they operate. Figure 1 depicts the patterns of service areas in the various cities listed in Table 1.

Conclusion

Competitive systems of refuse collection in the 19th century were generally transitional states that preceded all-municipal collection in large cities. They have re-emerged in recent years in response to pressures caused by annexation, environmental protection (leading to combining garbage and trash collection), and resistance to higher taxes (leading to the demand for more efficient service delivery). As a result, some cities that until recently had all-municipal collection of residential refuse now have competitive systems. Such systems have important advantages over "pure" systems (all municipal or all contract). To summarize them,

- increased efficiency
- decreased vulnerability to employee actions
- decreased vulnerability to contractor failures
- protection against monopolistic behavior of contractors and of municipal employees
- dual yardsticks for measuring and comparing performance
- more substantive knowledge and understanding of service delivery.

These advantages are not always recognized or exploited fully, even in cities that have such systems. For example, assiduous and purposeful use of the yardstick to improve the work practices of its municipal agency has been exercised notably by Minneapolis. It systematically compared

TABLE 2
Cities with Competitive Collection Systems

Percent of Population Serviced by Private Sector	Number of Firms		
	1	2-9	10 or more
0 to 30%	New Orleans Akron Tampa Jackson, Miss.	Indianapolis	
31 to 69%	Minneapolis Newark	Kansas City Oklahoma City Jacksonville	South Bend (p) Topeka (p)
70 to 100%	Omaha* Jersey City*	Boston* Seattle*	Montreal St. Paul (p)

Note: All cities have municipal and contract collection only, unless otherwise indicated.

*Not competitive systems, as defined, because there is only contract collection and no municipal collection; included for illustrative purposes.

(p) = private collection

the practices (e.g., crew size) and performance (e.g., number of households served per crew per day) of the two service providers, its sanitation department and the private firms, and gradually obtained concessions from its employee union that made the department about as efficient and productive as the contractor.[8]

Other cities have used the yardstick somewhat more passively, measuring the comparative performance and expanding the size of the area served by the more productive operator. New Orleans and Oklahoma City are examples of this. Kansas City and Montreal have perfected their bidding and contracting procedures so that they have highly competitive conditions and take full advantage of market forces. This has resulted in collection costs that are very low in comparison to other cities with similar service levels.

On the other hand, Akron is typical of cities that have competitive systems in place but do not take advantage of them as well as they might. They have contract collection in a portion of the city as a matter of historical convenience but do not effectively compare performances, adopt the more productive practices, or exploit the competitive aspects of the situation. To speak of such cities as having competitive systems is a misnomer, for the two collection arrangements are not seen as being inherently competitive, but are seen as merely different.

Good management of public services requires more than tidy organization charts. The implicit belief that the public interest requires public services to be delivered by public agencies has given way to the recognition that the private sector is able to deliver services effectively and efficiently while under contract to public agencies. It is appropriate to look ahead to the next step, and to recognize and appreciate the advantages of dual, mixed, or competitive systems in which both the public and private sectors provide services, and where a competitive climate is deliberately fostered to improve the delivery of services. The evidence at hand rests firmly on a foundation of solid waste but the underlying principles appear applicable to numerous other public services.

Notes

1. See E. S. Savas, "The Institutional Structure of Local Government: A Conceptual Model," *Public Administration Review*, 38 (5): 412-419 (Sept./Oct., 1978); also, E. S. Savas, *The Organization and Efficiency of Solid Waste Collection*, Lexington, Mass.: Lexington Books, 1977, Chap. 3.
2. E. S. Savas, *Organization and Efficiency*, Chap. 3.
3. See Barbara J. Stevens, "Service Arrangement and the Cost of Residential Refuse Collection," in Savas, *Organization and Efficiency*, *ibid.*, Chap. 8; E. S. Savas, "Policy Analysis for Local Government: Public vs. Private Refuse Collection," *Policy Analysis*, 3(1): 49-74 (Winter 1977). Corroborative studies in three countries are summarized in E. S. Savas, "Public vs. Private Refuse Collection: A Critical Review of the Evidence," *Urban Analysis*, 6: 1-13 (1979).
4. See E. S. Savas, "Policy Analysis," *op. cit.*
5. See E. S. Savas, "An Empirical Study of Competition in Municipal Service Delivery," *Public Administration Review*, 37 (6): 717-724 (Nov.-Dec. 1977).
6. It is interesting to note the gradual reinstatement of enforced separation and segregation of household refuse into recyclable (e.g., newspapers, cans, bottles) and non-recyclable materials, and the return to a form of separate collection via Boy Scout newspaper drives, etc.
7. Barbara J. Stevens, "Scale, Market Structure, and the Cost of Refuse Collection," *Review of Economics and Statistics*, 60(3): 438-448 (Aug. 1978).
8. See E. S. Savas, Eileen Berenyi, David Moretti and Philip Hutchinson, "Alternatives in Service Delivery: Municipal

and Contract Refuse Collection in Kansas City," *Solid Wastes Management*, 22 (13): 26-58 (December 1979); "Mixed Systems for Solid Waste Collection: A Case Study of Akron, Ohio," Center for Government Studies, Columbia University (June 1979). For a discussion of the system in Minneapolis, see E. S. Savas, "An Empirical Study," *op. cit.* See Eileen Berenyi, David Moretti and E. S. Savas, "A Case Study of New Orleans' Public/Private Refuse Collection System," Center for Government Studies, Columbia University (December 1979); "Oklahoma City Case Study," Center for Government Studies, Columbia University (April 1980). E. S. Savas and Eileen Berenyi, "A Case Study of Montreal, Canada," Center for Government Studies, Columbia University (October 1979).

9. For a review of the evidence that contract collection is generally more efficient than municipal, see the references cited in footnote 3 above.
10. See E. S. Savas, "An Empirical Study," *op. cit.*

Policy Analysis

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Policy Analysis for Local Government: Public vs. Private Refuse Collection

by E. S. Savas

Policy Analysis for Local Government: Public vs. Private Refuse Collection

E. S. SAVAS

This discussion of a study of public and private residential refuse collection identifies the prevalence and comparative efficiency (cost to the household) of the different organizational arrangements used to provide the service in metropolitan areas of the U.S. Private firms play a major role, collecting residential refuse in almost twice as many cities as municipal agencies do; and, in cities with over 50,000 in population, collection by private firms under contract to the city is significantly more efficient than collection by municipal agencies. The author advances policy recommendations to improve the productivity of local government with regard to this and other municipal services.

Government in this country is big business. There are almost 80,000 governments in the United States, and their combined revenues in 1974 amounted to one-third of the gross national product. Contrary to popular impression, state and local government in the aggregate are much larger than the federal government, by two important measures. First, most of the money spent by government for goods and services is spent by state and local governments, not the federal government: the former spent $192 billion in 1974; the latter, $116 billion. Second, state and local government employs 11.5 million people, about one-seventh of the civilian work

I am grateful to Professor Barbara Stevens, Ms. Eileen Brettler Berenyi, Mr. Daniel Baumol, and the many other members of the project whose efforts contributed to the work reported in this article. The support of the National Science Foundation, Research Applied to National Needs Division, under contract no. SSH 74–02061 A01, is gratefully acknowledged. Any opinions, findings, conclusions, or recommendations are my own and do not necessarily reflect the views of the National Science Foundation.

force and four times the federal nonmilitary work force. Between 1953 and 1973, the number of state and local government employees nearly tripled—and the payroll increased sevenfold.

Not surprisingly, then, productivity has emerged as a dominant problem in managing local government. Many Americans feel that government—particularly local government, which is responsible for the daily delivery of highly visible services—is inefficient and ineffective: the disparity between what local government takes and what it gives looms large in the public eye, as manifested by the annual taxpayers' revolt.

There is a growing belief that significant and enduring increases in the efficiency and effectiveness of local government can be achieved only by recognizing the institutional nature of the basic problems, designing management strategies to overcome them, and building the political support to do so.

One strategic approach to improving the performance of local government deals with the institutional arrangement by which municipal services are delivered. Municipal agencies and workers can and do provide services, but many alternatives are to be found, as governments contract with each other and with private firms,[1] for example, and as citizens retain the responsibility of making their own private and voluntary cooperative arrangements for certain services.

For an illustration of the range of alternatives, consider that health services, social services, and education are provided under contract, as are installation and maintenance of street lights and traffic lights, animal pounds, water supply, street cleaning and maintenance, refuse collection and disposal, snow removal, tax assessment and collection, vehicle maintenance, inspection services of various kinds, emergency ambulance service, and police services, to name but a few. Less well known is that fire protection is purchased by some communities from private firms, reportedly at a lower cost than cities can provide it.[2] In Minneapolis, a major civic effort is under way to examine systematically the public services that might better be provided by the private sector;[3] and in California, the widespread "Lakewood Plan" has created a competitive marketplace for municipal services, with both public and private providers.[4] Interest in the subject of alternative service arrangements can be intense, as evidenced by the strong reactions from various quarters that greeted my own report comparing the efficiency of public and private service in one large city:[5] two city agencies disagreed vociferously about the findings, newspaper editorials warmly endorsed the recommendations, the affected union attacked the study, and enterprising journalists and good-government groups conducted their own analyses and corroborated the findings.

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[1] International City Management Association, *Contracting for Municipal Services*, Management Information Service Report 240 (Washington, D.C., 1964); Herbert Kiesling and Donald Fisk, *Local Government Privatization/Competition Innovations* (Washington, D.C.: The Urban Institute, 1973).

[2] Roger S. Ahlbrandt, Jr., *Municipal Fire Protection Services: Comparison of Alternative Organizational Forms* (Beverly Hills, Calif.: Sage Publications, Inc., 1973).

An enlarged role for the private sector in delivering public services has been advocated.[6] Furthermore, it has been pointed out that government agencies can and do behave in monopolistic fashion,[7] and strategies for introducing and establishing competition—from both public and private organizations—have been identified.[8] However, while there have been many individual studies of particular services in specific localities, and while much has been written in the way of ideological bombast, polemic tracts, and unsubstantiated assertions, there has been little in the way of definitive research. The basic policy questions remain unanswered:

1. How does the organizational structure of municipal services affect their efficiency and effectiveness?
2. How do publicly and privately provided services compare?

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[3] Citizens League, *Why Not Buy Service?* (Minneapolis, Minn., 1972).

[4] Robert O. Warren, *Government in Metropolitan Regions* (Davis: University of California, Institute of Governmental Affairs, 1966).

[5] E. S. Savas et al., *Refuse Collection: Department of Sanitation vs. Private Carting* (New York: Office of the Mayor, City of New York, 1970).

[6] Peter F. Drucker, *The Age of Discontinuity* (New York: Harper & Row, 1968); Lyle C. Fitch, "Increasing the Role of the Private Sector in Providing Public Services," in *Improving the Quality of Urban Management*, eds. W. D. Hawley and D. Rogers (Beverly Hills, Calif.: Sage Publications, 1974).

[7] Anthony Downs, *Urban Problems and Prospects* (Chicago: Markham, 1970); E. S. Savas, "Municipal Monopoly," *Harper's*, December 1971, pp. 55–60; William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine Publishing Company, 1971).

[8] Savas, "Municipal Monopoly"; E. S. Savas, "Municipal Monopolies versus Competition in Delivering Urban Services," in Hawley and Rogers, eds., *Improving the Quality of Urban Management*.

3. What accounts for any differences?
4. What policies and actions in this area should be followed by governments and by private industry?
5. How can the public interest best be protected if vital public services are provided by the private sector?

SOLID WASTE COLLECTION

The Center for Government Studies at Columbia University has been examining these policy issues in a nationwide study of refuse collection. This article examines the findings of that study.

Because of its impact on public health, refuse collection is a concern of government, particularly local government. Although this service does not share the life-saving characteristics of the local emergency services—police, fire, ambulance—it has higher political visibility: garbage requires conscious action every day by every family, and if service is unsatisfactory, the fact is quickly evident. The importance of this subject is demonstrated by a recent survey in which elected local officials named solid waste management most frequently as a problem, ranking it ahead of crime, housing, and addiction.[9]

Refuse collection has been studied extensively with respect to its technical aspects,[10] including the technical factors that affect productivity.[11] However, it has not been studied closely in terms of the fundamental policy issues addressed here, despite its eminent suitability for the purpose: both the public and the private sectors provide the service, under a variety of institutional forms, thereby affording an excellent opportunity for drawing comparisons. For these reasons—namely, a vital service, high visibility, and delivery by both the public and private sectors—as well as the relative ease of measurement (compared to measuring education services, for instance), refuse collection provides a superb focus for studying the basic policy questions listed above.

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9. National League of Cities, *America's Mayors and Councilmen: Their Problems and Frustrations* (Washington, D.C., 1974).

10. See, for example, American Public Works Association, *Solid Waste Collection Practices* (Chicago, 1975); and Ralph Stone and Co., Inc., *A Study of Solid Waste Collection Systems Comparing One-Man with Multi-Man Crews*, Public Health Service Publication No. 1892 (Washington, D.C., U.S. Government Printing Office, 1969).

11. Harry P. Hatry et al., *The Challenge of Productivity Diversity, Part II: Solid Waste Collection* (Washington, D.C.: The Urban Institute, 1972).

Solid waste or refuse (I use the two terms interchangeably) is defined as discarded solid materials resulting from domestic and community activities and from industrial, commercial, and agricultural operations. This analysis centers on residential refuse, that portion of solid waste originating in residences. The amount of such refuse generated annually in the United States—some 90 million tons, or 2.39 pounds per person per day—is shown by type in table 1.

TABLE 1. RESIDENTIAL SOLID-WASTE GENERATION IN THE UNITED STATES

Type of Waste	Millions of Tons per Year	Pounds per Person per Day
Garbage (i.e., food wastes)	17.8	0.47
Rubbish (excluding yard waste)	48.0	1.27
Yard waste (grass, clippings, twigs, leaves, etc.)	18.1	0.48
Bulky waste (large appliances, furniture, etc.)	6.4	0.17
TOTAL	90.3	2.39

SOURCE: Data are for 1971 and are derived from F. A. Smith, *Comparative Estimates of Post-Consumer Solid Waste*, SW-148 (Washington, D.C.: U. S. Environmental Protection Agency, 1975).

In the following pages I identify the organizational arrangements employed in residential solid-waste collection and discuss the extent to which each arrangement is used. Then I compare the relative efficiencies of the major alternative arrangements and, finally, analyze disparities in relative efficiencies.

EXTENT OF USE OF ALTERNATIVE ARRANGEMENTS FOR RESIDENTIAL REFUSE COLLECTION

Residential refuse collection is carried out in the United States under many different organizational structures. A full discussion is available elsewhere,[12] but for this report it is sufficient to identify only the most common arrangements: municipal, contract, franchise, private, and self-service. Under municipal collection, a unit of the local government performs the service. In contract collection, the local government hires and pays a private firm to do the work.

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[12] E. S. Savas, "Solid Waste Collection in Metropolitan Areas," in *The Delivery of Urban Services*, ed. E. Ostrom (Beverly Hills, Calif.: Sage Publications, 1976), p. 207.

In franchise collection, a private firm is granted the exclusive right to provide refuse-collection services in an area, and the firm charges the customers it serves. Under private collection, as defined here, the household arranges for service by any private firm and, as in franchise collection, pays the firm directly. Under self-service, a household brings its own refuse to a disposal site. Note that a particular city may utilize more than one of these arrangements.

Between 1902 and 1974, no less than eleven major surveys attempted to determine the prevalence of the different arrangements in American cities. In the aggregate, however, these surveys suffered from a variety of defects that made it difficult to interpret and compare the findings and to detect changes in the utilization of alternative arrangements. The prior surveys were weakened principally by —

- absence of a clear and coherent framework defining the organizational arrangements;
- low response rates to survey questionnaires, with unknown biases in the returns;
- use of mail surveys in all but one case, with ambiguous responses;
- inclusion or exclusion of various types of solid waste;
- varying limits on the size of cities included in the surveys;
- presentation of data in ways that defied comparison;
- failure to distinguish clearly between residential collection and collection from commercial establishments and from institutions such as schools and hospitals.

Columbia University Survey

The Columbia survey, conducted in 1975, was designed to avoid the defects of the earlier efforts. It was carried out by telephone instead of mail for (*a*) rapid completion; (*b*) a high response rate (to minimize error due to bias in responses); (*c*) accuracy, through verbal discussion and clarification where necessary; and (*d*) firsthand impressions, by interviewers experienced in local government, as to the reliability of the data.

It is important to describe the data base used for this study. The primary basis for including a given governmental jurisdiction in the sample was its location in any Standard Metropolitan Statistical Area (SMSA) lying entirely within a single state and having a total population of less than 1,500,000. (These restrictions were imposed by the National Science Foundation, which supported the research.) Two hundred of the 243 SMSAs (according to the 1970 Census) were eligible. Within these SMSAs, all incorporated municipalities with populations of more than 2,500 were eligible. The largest eligible city had a population of 750,000. In addition, any township was eligible if authorized by its state to collect or arrange for the collection of solid waste, so long as the population for which it had such authority was 2,500 or more. Altogether, 2,060 communities proved eligible and constituted the statistical universe for the survey; 252 were central cities in the SMSAs, and 1,808 were satellite cities or townships. All eligible communities in 41 of the 200 eligible SMSAs were included in the sample. From the remaining 159 SMSAs, all central cities but only one-half of the satellite cities (randomly selected) were included. The latter were then double counted to create the complete data file upon which the analysis was based.

The total sample, then, consisted of 1,378 communities, and responses were obtained from 1,377 (one community could not be reached by telephone despite repeated attempts); because of the nature of the statistical sample, it can be stated with confidence that the results describe the entire universe of 2,060 communities. It is this universe that is analyzed and described below. (Note that the terms "city," "municipality," and "community" are used interchangeably and should be understood as meaning both the cities and the townships already described.)

Because of the size of the sample, the way it was selected, the high response rate, and the conduct of the survey by telephone, I believe that the findings presented here are the most authoritative to date.

Altogether, the 200 SMSAs in the sample have a total population of 76.5 million, or 33.3 percent of the 1970 U.S. population; the 2,060 communities have a population of 52 million. The sample is intentionally biased toward metropolitan areas, ignoring rural areas and small communities with populations of less than 2,500. This bias reflects the study's focus on policy: refuse collection is a more significant problem in urban than in rural areas.

Survey Findings

A detailed presentation of survey results appears elsewhere,[13] but the key findings relevant to our purpose are summarized here. Table 2 shows the distribution of cities according to the identity of the collector of mixed residential refuse. Totals are over 100 percent in

[13] Savas, "Solid Waste Collection," in *Delivery of Urban Services*, p. 218.

TABLE 2. COLLECTION OF MIXED RESIDENTIAL REFUSE

Refuse Collector	Number of Cities	Percentage of Cities	Number of Cities With Only One Kind of Collector	Percentage of Cities With Only One Kind of Collector	Percentage of 2,052 Cities
Municipality	768	37.4%	668	41.6%	32.6%
Private Firm	1,368	66.7[*]	929	57.8	45.3
Self-Service	376	18.3	10	0.6	0.5
Other	19	0.9	N.A.	N.A.	N.A.
Column Sum	2,531	123.3	1,607	100.0	78.3
Total Number of Cities	2,052	100.0			

NOTES: Because many cities have more than one kind of refuse collector, the number of types of collectors is greater than the number of cities.

The total number of cities reported in this table is only 2,052, because 8 of the 2,060 cities have collection systems only for *separated* residential refuse, not for *mixed* residential refuse.

[*] That is, private firms collect at least some of the mixed residential refuse in 66.7% of the 2,052 cities.

all cases, because in some cities more than one kind of refuse collector is available, though not necessarily to a given household.

It is clear that collection by private firms is commonplace. Indeed, the number of cities that have private firms collecting at least some of the residential refuse is almost twice as large (66.7 percent) as the number that have municipal agencies collecting at least some (37.4 percent).

Furthermore, if we restrict our attention to those cities that have *either* municipal collection *or* collection by one or more private firms (but not both), as shown in table 2, we find that substantially more communities rely entirely on private firms (45.3 percent) than on municipal agencies (32.6 percent).

A rather different pattern emerges, however, by looking not at the number of cities serviced by private firms but at the number of people serviced by them. Because large cities are more likely to have municipal collection, the fraction of the *population* serviced by municipal agencies is significantly higher than the fraction of *cities* with municipal collection. We find 61.3 percent of the population in this sample receiving municipal service, 36 percent receiving service from private firms, and 1.2 percent practicing self-service. These figures must be used with caution, however: the data for the fraction of a community's population serviced by a given arrangement may be biased, since the information was obtained from municipal employees, whose estimates of the magnitude of private-sector operations may be in error. A 1973 study that relied on private firms for its data concluded that 50 percent of the population was serviced by the private sector.[14] For our sample communities, it seems safe to conclude that 36 to 50 percent of the population has its refuse collected by private firms.

Private firms, as noted earlier, collect refuse under several different arrangements, the observed distribution of which is shown in table 3. Private collection is found (to a greater or lesser extent) in 38.1 percent of the cities, contract collection in 20.5 percent, and franchise collection in 8.0 percent. Table 4 shows that the distribution of arrangements differs significantly by city size and by region: larger cities are more likely to have municipal service; fran-

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[14] Applied Management Sciences, Inc., *The Private Sector in Solid Waste Management: A Profile of Its Resources and Contribution to Collection and Disposal* (Washington, D.C.: U.S. Environmental Protection Agency, 1973).

TABLE 3: SERVICE ARRANGEMENTS FOR THE COLLECTION OF MIXED RESIDENTIAL REFUSE

Arrangement	Number of Cities	Percentage of Cities*	Percentage of Arrangements**
Municipal	768	37.4%	30.3%
Contract	421	20.5	16.6
Franchise	165	8.0	6.5
Private	782	38.1	30.9
Self-service	376	18.3	14.9
Other	19	0.9	0.8
Column Sum	2,531	123.3	100.0

* Based on 2,052 cities.

** Based on 2,531 arrangements in the 2,052 cities.

chise arrangements are more common in the West than elsewhere; Southern cities are more likely to utilize municipal collection than other arrangements, while Northern cities in the East and Midwest favor private collection. Municipal collection is used to the same extent by mayor-council and council-manager cities.

RELATIVE EFFICIENCY OF ALTERNATIVE ARRANGEMENTS

The survey shows extensive use of several principal organizational arrangements: municipal, contract, franchise, and private. Three key issues emerge for public policy at the local government level: Do the alternative arrangements differ significantly in efficiency? Under what circumstances? Why?

Efficiency was defined solely in terms of cost to the household. For municipal collection, this was the cost of municipal service, regardless of the means used to finance the service—taxes or user charges. For collection by private firms, it was the price of service, again without regard to the means of financing. The cost to the household represented the cost of collection only; disposal costs were not included. The cost of collection was defined to include the cost of transporting the wastes to a disposal site or transfer station, excluding all handling costs beyond that point.

Procedures for Collecting Data

By defining efficiency as the cost to the household, the researchers avoided a major obstacle: it was not necessary to obtain the *costs* to private firms, but only the *prices* they charged. The latter differ from the former in that they include profits.

TABLE 4. SERVICE ARRANGEMENTS FOR THE COLLECTION OF MIXED RESIDENTIAL REFUSE, BY CITY SIZE, REGION, AND FORM OF GOVERNMENT

	Total	Municipal		Contract		Franchise		Private		Self-Service		Other	
		#	%	#	%	#	%	#	%	#	%	#	%
Total	2,531	768	30.3	420	16.6	166	6.5	782	30.9	376	14.9	19	0.8
Population Group	2,531												
≧250,000	37	27	73.0	4	10.8	0	0	4	10.8	1	2.7	1	2.7
50,000–249,999	268	149	55.6	25	9.3	22	8.2	41	15.3	28	10.4	3	1.1
10,000–49,999	706	242	34.3	152	21.5	59	8.4	170	24.1	81	11.5	2	0.3
2,500– 9,999	1,520	350	23.0	239	15.7	85	5.6	567	37.3	266	17.5	13	0.9
Geographic Region	2,531												
Northeast	981	186	19.0	213	21.7	22	2.2	382	38.9	176	17.9	2	0.2
North Central	715	143	20.0	111	15.5	16	2.2	330	46.2	107	15.0	8	1.1
South	469	341	72.7	28	6.0	34	7.2	33	7.0	27	5.8	6	1.3
West	366	98	26.8	69	18.9	93	25.4	37	10.1	66	18.0	3	0.8
Form of Government	1,799*												
Mayor-council	876	374	42.7	214	24.4	42	4.8	178	20.3	64	7.3	4	0.4
Council-manager	724	319	44.1	109	15.1	103	14.2	100	13.8	87	12.0	6	0.8
Other	199	54	27.1	32	16.1	5	2.5	60	30.2	45	22.6	3	1.5

NOTE: This table shows the distribution of *arrangements*, not the distribution of *cities*. There are a total of 2,531 arrangements in the 2,052 cities.

* Information on form of government was not available for some cities.

Even so, collecting the necessary data was no trivial undertaking. A different method was employed for each of the major arrangements studied.

Municipal Collection—Many comparative studies of municipal services utilize cost data reported in the municipality's published budget. While such an approach has the advantage of ease and simplicity, it is hopelessly inadequate in a study of efficiency, because budgetary and accounting practices differ greatly among cities. The following problems were anticipated:

1. Capital costs of vehicles do not always appear in the budget of the department using the vehicles.
2. The cost of fuel and oil and other operating costs of vehicles are often missing from the budget of the refuse-collection agency.
3. Labor costs for vehicle repair often appear elsewhere in the budget, depending on how vehicle maintenance is carried out.
4. The cost of fringe benefits (including pension contributions) may or may not be allocated to the department where a worker is assigned.
5. The cost of supplementary workers "borrowed" from other departments to fill in during absences and vacations of regular workers is sometimes overlooked.
6. The costs of constructing, maintaining, and operating garages and offices may not be included in departmental budgets.
7. The cost of the property used by the agency, in the form of property taves that would be collected if the property were privately owned, is rarely treated as a cost of the service.
8. Overhead costs often are similarly ignored.
9. If the municipality is self-insured, the cost of liability claims paid should be included in the cost of the service. This cost, as well as the cost of insurance premiums (for vehicle and personal liability, for instance), is often excluded from departmental budgets.

The magnitude of the costs that are properly attributed to the service—but not explicitly allocated to it—can be large. A study of New York City's refuse-collection service showed that vehicle-purchase costs, fringe benefits, liability expenses, and overhead were not included in the budget but added 44.2 percent to the cost.[15] If the value of property taxes foregone on Sanitation Department property had been included, the figure would have been 48.4 percent. In other words, the full cost of collection for New York City was 44.2 to 48.4 percent greater than the cost reported in the budget.

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[15] Savas, *Refuse Collection*, p. 44.

The methodology used in the New York study was subsequently applied to a study of municipal refuse collection in five cities in New Jersey.[16] It was found that total costs were from 3 percent to 44 percent greater than the costs reported in the budgets of those cities. (The average was 22 percent.) Because of such unsatisfactory accounting practices, cities are often unaware of their true costs of refuse collection and are therefore unable to make valid cost comparisons between their current municipal operations and alternative arrangements.

To avoid these problems, the Columbia researchers gathered all the cost data on municipal refuse collection by conducting on-site interviews. On the basis of preliminary visits to cities and in-depth conversations with finance officers, public works officials, and accountants, they developed a detailed form that included all the relevant cost items. Two-person teams then visited the selected cities and spent one to three days obtaining detailed cost information.

Note also that many municipalities levied a user charge for the refuse-collection service. The amount of any such charge was recorded but was *not* used to determine the cost of municipal collection; that cost, as explained earlier, was determined by examining expenditures, not revenues.

The total cost of municipal collection was determined in this manner for 102 cities. The cities were randomly selected, after stratifying by population size and region, from SMSAs that were themselves randomly selected. (Only cities with municipal collection were eligible, of course.) The sample chosen was small enough to be economically feasible to study but large enough to offer a high probability of finding significant results.

Contract Collection—Determining the cost to the household of contract collection was relatively straightforward. The researchers selected a sample of 165 cities at random (after stratifying by city size and region) from the cities identified in the telephone survey as having this arrangement. They determined prices by obtaining and examining the contract documents, by verifying the basic facts

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[16] Seton Hall University, *Comparative Estimates of Post-Consumer Solid Waste*, Sw–148 (Washington, D.C.: U.S. Environmental Protection Agency, 1972).

(price, service level, type of service, number of households served) with city officials by mail and telephone, and by conducting telephone interviews with the private contractors. The response rate was 79 percent for the cities and 80 percent for the contractors (99 and 100 cities, respectively, but the two sets of cities did not completely overlap).

In many cases the contract provided for no-cost disposal by the contractor at a municipal disposal facility or for separate payment of a disposal fee by the municipality. In other cases the contractor had to pay for disposal, and in still others he had to dispose of the waste at his own site. In the latter two cases the disposal fee paid at the relevant site was determined in telephone interviews with the contractor, and the contract price was adjusted to reflect the price of collection alone. This figure was then converted to a per-household price.

Franchise Collection—The Columbia team drew a random, stratified sample of 65 cities with franchise collection, selected households in those cities at random, telephoned them at random, and asked the price they paid, the name of the firm providing the service, and the level of service received (that is, the frequency and location of pickup). Then they called the firm and asked about its rate structure (price for a given level of service), disposal costs, and operating characteristics, such as crew size, salaries, and type of vehicle used. (The prices quoted by the household and by the firm were virtually identical, differing by an average of only 1 percent.) In addition, mail questionnaires were sent to the city government to learn about the procedures for awarding franchises and setting rates.

Private Collection—The term "private collection," it will be recalled, describes the arrangement whereby an individual household contracts directly with a firm that has no exclusive franchise to provide service. Data were gathered as in the case of franchise collection, except that no contact with the local governmental unit was necessary beyond the initial determination that private service was the dominant method of collection in that community. A sample of 125 such cities was drawn at random after stratification by size and region.

Biases in the Data

Despite the care exercised in collecting the data, certain biases were unavoidable: there was a tendency to underestimate the cost of municipal collection and, to a lesser extent, contract collection.

Municipal Collection—First, data on the cost of the buildings used by municipal agencies and on the taxes the property would yield if not owned by the municipality were generally not available and could not be estimated with any confidence. Therefore, these costs were usually not included in the cost of municipal collection.

The second cause of the understatement is more complicated. The service that was examined was the collection of mixed residential refuse. The separate collection of bulky waste, leaves, commercial refuse, street litter, etc., was carefully omitted from the cost analysis. An examination of operating procedures, however, revealed the occasional existence of practices illustrated by the following example: In one Southern city, the municipal agency operated five days a week. It provided twice-a-week collection service: on Mondays and Thursdays on half the routes, and on Tuesdays and Fridays on the remaining routes. What happened on Wednesdays? Wednesday was deliberately designed as a light-duty day for the men. Bulk collections were made on that da but that took rather little time; the rest of the day was spent on minor clean-up work and on various chores in and around the garage. Because Wednesday was formally earmarked for bulk collection, the labor costs for that day were not assigned to residential mixed-refuse collection in the cost analysis. In essence, then only 80 percent of the department's labor costs were assigned to mixed-refuse collection, although one could argue with considerable justification that 90 percent or more of the costs are properly attributable to this service. Nevertheless, this cost-accounting procedure was employed, because a sound alternative treatment of the costs would have demanded something approaching a time study in each city.

Third, the cost of municipal collection may be understated to the extent that the city's pension fund is underfunded. That is, the city may be incurring a greater liability for pensions than its current payments into the pension fund will cover. This problem has arisen in a number of cities, because unsound actuarial assumptions are used to calculate the city's contribution to the pension fund.

Contract Collection—The full cost to the household under contract collection is somewhat understated. The municipality incurs some costs when collecting taxes or billing its residents for the service, and these costs are not included in this calculation. They are usually quite small. In the case of tax-financed refuse collection, the proportion of taxes allocated to refuse collection is generally minor, and tax-collection costs are themselves rather modest on a per-household basis. If the community bills its residents for service, it is often as part of a joint bill for several services—for example, water, sewer, electricity, gas, and refuse collection. Only under separate billing for refuse service does this cost become an appreciable fraction of the total collection cost. In cities that billed their residents for this service, either jointly or separately, the average billing cost amounted to 3 percent of the total cost of municipal refuse collection; the highest billing cost was 8 percent.

Additionally, it does cost something, after all, for the city to prepare and execute the contract, handle citizens' complaints about the service, and otherwise monitor the performance of the contractor. These marginal costs, although probably small, were not determined and are excluded from the calculation.

Findings: Economies of Scale

Before examining the relative efficiency of different organizational arrangements, we must isolate certain other factors that may affect efficiency. Foremost is the matter of city size and the scale of the service-producing organization.

Stevens studied this issue and concluded that, for cities with populations of up to 20,000, the cost per household decreases as city size increases, and that there are small additional economies of scale up to a city size of about 50,000 in population. Furthermore, she found that these economies of scale, where they do exist, are passed along to the households—by both municipal agencies and private firms. For cities with populations of 50,000 to 720,000 neither economies nor diseconomies of scale were found with increasing city size. No larger cities were studied.[17]

Findings: Efficiency

The findings of the in-depth study, for 315 cities, are shown in table 5. Contract collection is the least costly service arrangement ($27.82 per household per year). It is followed by franchise and municipal collection and, finally, by private collection, the most

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17. Barbara J. Stevens, "Scale, Market Structure, and the Cost of Refuse Collection," Research Paper No. 107 (New York: Graduate School of Business, Columbia University, 1976), p. 22.

TABLE 5. ANNUAL COST PER HOUSEHOLD, BY SERVICE ARRANGEMENT

	Mean	Maximum	Minimum	Ratio of Mean to Contract Mean	Number of Cities
Municipal	$32.08	$71.12	$13.96	1.15	102
Contract	27.82	89.00	11.73	1.00	68
Franchise	29.74	50.28	12.00	1.07	59
Private	44.67	92.04	22.14	1.61	86
TOTAL	$34.16	$92.04	$11.73		315

costly at $44.67 per household per year. In the key comparison of the public and private sectors, municipal collection turned out to cost 15 percent more per household than contract collection.

However, the situation is complex. First, the range of costs within any arrangement was quite broad: service in the most expensive city cost four to almost eight times more than service in the least expensive city with the same arrangement. Second, there were certain systematic differences. In particular, the service level provided by cities with municipal collection was somewhat higher than that provided in contract cities; the frequency of collection in the former averaged 1.59 times per week, compared to 1.52 in the latter. Furthermore, 30 percent of the cities with municipal collection provided backyard service, while only 13 percent of the contract cities did. It is not surprising, then, that municipal collection is more costly than contract collection.

The data were therefore analyzed more closely by holding the level of service constant. The results for 206 cities are shown in table 6. (Fewer cities are included here than in table 5, because cities with different collection frequencies in different areas of the city were excluded.)

For once-a-week curbside service, contract collection again emerges as the least costly, at $22.42, followed by municipal collection, at $24.41. Private collection is most costly ($35.91). For once-a-week backyard service,' both franchise and contract collection $27.48 and $31.63, respectively), cost less than municipal collection, which is $38.71 annually per household. Only for twice-a-week curbside service is municipal collection slightly less costly than contract collection ($28.83 compared to $29.14).

But even though service level was held constant in this analysis, the standard deviations shown in table 6 are quite large, and the differences in means are not statistically significant. Part of the

TABLE 6. ANNUAL COST PER HOUSEHOLD, BY SERVICE ARRANGEMENT AND SERVICE LEVEL

	Service Level									Weighted Mean Cost	Total No. of Cities
	Once-a-week Curbside			Twice-a-week Curbside			Once-a-week Backyard				
	Mean	Std. Dev.	No. of Cities	Mean	Std. Dev.	No. of Cities	Mean	Std. Dev.	No. of Cities		
Municipal	$24.41	$ 8.86	26	$28.83	$ 8.22	31	$38.71	$11.42	8	$28.28	65
Contract	22.42	8.98	30	29.14	10.79	23	31.63	20.39	4	25.78	57
Franchise	27.94	10.23	22	29.85	8.57	8	27.48	10.50	9	28.23	39
Private	35.91	7.96	27	38.71	12.32	9	46.24	10.87	9	38.54	45
TOTAL	$27.54	$9.95	105	$30.30	$10.04	71	$36.66	$14.03	30	$29.82	206

reason for the large standard deviations is that certain factors could not be held constant and tend to obscure the relationship between collection arrangement and efficiency. For example, there are regional differences in collection frequency, with higher frequency of service more common in the South, as one would expect in an area where both plant growth and putrefaction of food waste occur rapidly. Also, labor costs in the South are lower than elsewhere. Finally, contract and franchise collection are relatively uncommon in the South, and the sample could not be stratified simultaneously by size and by region. As a result of these three interrelated factors, the cost of high-frequency service in table 6 is biased on the high side for nonmunicipal collection.

Econometric Analysis—Because not all variables could be held constant in this manner, Stevens constructed an econometric model and fitted it by regression analysis in order to isolate the independent effects of the multiple variables.[18] Briefly, the model employs a Cobb-Douglas production function to relate the total cost of refuse collection in a community to the following independent variables: total quantity of refuse, quantity of refuse per household per year, wage rate, density (households per square mile), temperature variation, frequency of collection, and location of pickup point.

For purposes of this analysis, cities with franchise collection were divided into two categories: those with mandatory service (where all residents are required to purchase the service) and those with nonmandatory service (where the resident has a choice of purchasing service from the single, franchised firm or else hauling his own refuse to a disposal site). Mandatory franchised collection is structurally equivalent to contract collection, in that one firm services every residence in the area; the only structural difference is that the franchised firm incurs billing costs that the contract firm, which is paid by the city, does not. Nonmandatory franchised collection, on the other hand, is structurally equivalent to private collection, in that the firm faces competition either from other firms or from self-service households and in general does not service every residence. The franchise category was therefore eliminated, and the cities with franchise collection were included within the contract or private category, depending on whether service was mandatory or not.

Stevens estimated her model in two ways: by using weight as a

[18] Stevens, "Scale, Market Structure, and Cost of Refuse Collection," p. 13.

measure for 177 cities (including 91 with municipal collection, 34 with contract or mandatory franchise collection, and 52 with private collection); and by using volume as a measure of refuse quantity for 262 cities (92 municipal, 79 contract or mandatory franchise, and 91 private). The two approaches yielded mutually consistent results.

In terms of cost to the household, Stevens found that private collection was significantly more costly than contract collection. No significant difference was found between municipal and private collection for cities with less than 20,000 or more than 50,000 in population, nor between municipal and contract collection for cities with less than 50,000. But for cities of more than 50,000, contract collection was significantly less expensive than municipal collection: the cost per household for municipal collection in such cities was found to be 29 percent (or 37 percent) greater than the corresponding cost of contract collection, on the basis of refuse data in terms of tons (or cubic yards). This was significant at the 99 percent level.

Table 7 illustrates the effect of arrangement on cost, using the indicated values for the independent variables. Details concerning the theoretical derivation and empirical estimation of the model are given in Stevens's research paper, cited above.

Table 7. Annual Cost, by Service Arrangement, for a City of 60,000 in Population

	Cost per Household	Ratios of Costs per Household	Estimated Ratios of Cost per Household before Taxes and Profits
Municipal	$23.77	1.29	1.61
Contract and Mandatory Franchise	18.40	1.00	1.00
Private and Nonmandatory Franchise	24.10	1.31	1.31

Note: Entries in the first column were calculated using the following reasonable values of the independent variables:

Total amount of refuse: 30,000 tons per year
Amount of refuse per household: 1.5 tons per year
Wage rate: $600 per month
Density: 600 households per square mile
Temperature variation: 15°C.
Frequency of collection: once a week
Point of pickup: curbside

The final column is discussed in the text.

Discussion

The significantly lower cost of contract collection compared to muincipal collection firmly discredits the popular but simplistic assertion that "government can do it cheaper because it doesn't make a profit." Government clearly cannot do it cheaper, at least in the case of residential refuse collection in cities with more than 50,000 people. Private firms under contract are less expensive than municipal agencies in providing this public service.

Furthermore, remember that the price charged by private firms includes three factors: the pretax cost of providing the service; the cost of taxes and fees paid to local, state, and federal governments; and profits. From the point of view of the ultimate consumer of service, the household, the price it must pay is the relevant figure. Whether the price is paid by taxes or by fees, and whether the government retains the money and provides the service directly or retains a private firm and pays the latter for providing the service, appear to be irrelevant, at least at first glance. In fact, the American Public Works Association, the professional society of municipal officials responsible for refuse collection, cites as an advantage that, since municipal operations "are not subject to state or federal taxes, . . . these costs are not passed on to the citizens."[19] However, this issue bears closer examination. Private firms pay various fees and taxes that governments generally do not: they may pay for a local business license, a state fee for vehicle registration, property taxes, fuel taxes, sales taxes, corporate income taxes, and so forth. Industry sources estimate that the sum of all the fees and taxes paid to governments by private refuse-collection firms amounts to 15 percent of revenues. The cost of these taxes is, of course, included in the price charged by the firm. Therefore, when customers pay government $100 for municipal refuse-collection service, they receive only refuse-collection service. But when they pay $100, directly or indirectly, to private firms for the service (by municipal contract or otherwise), *they receive not only refuse-collection service but also a bonus of $15 worth of other, unidentifiable government services* (wanted or unwanted) that the firm, in effect, rebates to consumers via its taxes. This important factor must be kept in mind when efficiency is measured narrowly, as it is here, in terms of the price paid by the household for refuse collection.

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[19] American Public Works Association, *Solid Waste Collection Practices*, p. 244.

If we look at the question of efficiency not with the consumer's concern for his own direct, visible, out-of-pocket expenses but with the policy analyst's desire to examine, on a strictly equivalent basis, the relative productivity of the municipal and private sectors in delivering comparable services, the relevant comparison changes. It is not the *cost* of municipal service and the *price* of service charged by a private firm, but the *cost* of the former and the *cost* of the latter, for, again, the price charged by the firm includes pretax production costs, taxes, and profits.

Industrywide data on profits are not available, but the published annual reports of several publicly owned firms report net profits after taxes that average 5.9 percent of sales. Assuming that profits amount to only 5 percent of sales, and that taxes represent 15 percent of sales (see above), then the cost of collection by a private firm is only 80 percent of the price it charges, and the price is 25 percent greater than the cost. In other words, if refuse collection by a public agency and by a private firm were equal in terms of *cost to the household*, then in terms of *cost of production*, the public agency would be 25 percent more costly (less efficient) than the private firm. (It must be emphasized, however, that the level of taxes and the assumed profit rate have not been studied here in depth; therefore, this illustrative computation cannot be said to reflect carefully established empirical data.)

This analysis can be applied to the data in the first column of table 7 to generate the last column. On this basis (cost of production rather than cost to the household), it costs the average municipal agency an estimated 61 percent (71 percent if based on cubic yards) more than it costs the average contract firm (before taxes and profits) to provide the refuse-collection service.

A small portion of the difference in efficiency between municipal and contract collection is due to the (relatively minor) costs of billing and tax collection incurred by the municipality but not by the private firm under contract. Furthermore, as noted above, the full cost of contract collection is slightly understated because the contract cost does not reflect the costs incurred by the city to prepare and execute the contracts, handle citizens' complaints, and monitor the contractor's performance. Nevertheless, these factors cannot explain the observed difference. Instead, the high cost of municipal collection compared with contract collection is apparently due to what some might call "bureaucratic inefficiency" or "governmental inefficiency": compared to private firms with contracts in cities of over 50,000, municipal refuse-collection agencies in such cities have higher employee absentee rates (12 percent vs. 6.5 percent, significant at the 99 percent level); employ larger crews (3.26 men vs. 2.15, significant at the 99.9 percent level); serve fewer households per shift (632 vs. 686, not significant at the 95 percent level); spend more time servicing each household (4.35 man-hours per year vs. 2.37, significant at the 99.9 percent level); and are less likely to utilize labor-incentive systems (80 percent vs. 89 percent, not significant at the 95 percent level).

For cities in the size range where service under private arrangement is more costly than service under contract or mandatory franchise arrangement, the difference is due partly to the overlapping of collection routes: an arrangement that allows only one organization to collect refuse from every residence in an area is more efficient for areas of up to 50,000 in population, because at constant population density there are more customers per route-mile. In addition, arrangements that require private firms to bill their customers (franchise and private arrangements) are generally more costly than contract arrangements, where no billing expense is incurred by the firm. Payment by taxes rather than by a special fee is expected to yield lower ultimate costs per household, because billing expenses are reduced and also because taxes—but not fees—are deductible on federal income tax returns.

Limitations of the Findings

Keep in mind that this analysis studied only efficiency, and that it measured efficiency narrowly as the cost to the household for collection service, excluding the cost of disposal. It was demonstrated that private firms under contract to cities are significantly more *efficient* than municipal agencies in providing this service. However, the *effectiveness* of the different arrangements was not studied in detail. A devil's advocate could take the position that private firms are of course more efficient, but only because they do a hasty and sloppy job, providing service that is irregular, unreliable, and unresponsive: they show up hours later than they are supposed to—

if they show up at all—and make excessive noise, spill half the garbage in the street, damage the containers, kick the dog, are surly and mean to residents, and either lack an office telephone (so that you cannot reach them to register complaints) or, if they have a phone and answer it, are abrupt and abusive to the caller and ignore the complaint. Indeed, the American Public Works Association makes the following assertions:

> Because of their direct responsibility to the people, municipal employees often provide numerous extra services and exercise greater care in handling and loading than is expected or realized from contractors or private collectors.[20]
>
> Under municipal operation it is much easier for city officials to respond to legitimate requests of citizens for improved community appearance.[21]
>
> Courteous and prompt response to citizen complaints is one of the outstanding characteristics of municipal service.[22]

The assertions are unsubstantiated, however, and are offered without supporting evidence. Still, these elements of effective service were not examined completely in the analysis reported here. Recipients of *private* collection reported very satisfactory service, in a special survey, but from the work done so far we cannot tell whether *contract* collection is less effective, as effective, or more effective than municipal collection. We *can* say, however, that it is more efficient.

Remember also that this analysis was restricted to residential solid-waste collection. The devil's advocate could argue that, although contract collection results in the lowest direct cost to the household, its comparative cheapness is illusory: If a contract firm also collects commercial refuse in the community and charges a relatively high price for that service, the commercial service may be subsidizing the residential service; meanwhile, the high price charged to the city's commercial establishments—restaurants, drug stores, supermarkets, etc.—is passed on to the city's residents in the form of higher prices for the establishments' goods and services.

[20] American Public Works Association, *Solid Waste Collection Practices*, p. 241.

[21] *Ibid.*, p. 242.

[22] *Ibid.*

Hence, the devil's advocate might conclude that the true total cost of residential collection is greater than indicated by the cost-measuring procedure used in this analysis, and that contract collection may be even costlier than municipal collection.

This hypothesis, that residential service by contract is subsidized by commercial service, cannot be rejected on the basis of the work to date. Like the effectiveness hypothesis, it remains to be tested in subsequent research. It seems at least as likely, however, for reasons stated above, that municipal refuse-collection service is "subsidized" by other municipal activities.

Finally, from the broadest viewpoint of social costs and benefits, it should be recognized that a change from municipal to contract refuse collection may reduce the service's direct cost to the household. But if this is achieved by increasing the number of unemployed residents, whether or not they receive unemployment or welfare benefits, the net costs to society and to taxpayers across the nation may outweigh the direct savings to local households.

POLICY RECOMMENDATIONS

The implications of these findings for improving the productivity of this service in American cities are clear, subject to the qualifications noted above. Cities of less than 20,000 in population are likely to lower their per-household cost of collection if they form larger markets, of up to 50,000 in size, to be serviced by a single organization—public or private. The cost will be even lower if the service is paid for by taxes.

Cities with private collection, whatever their size, are likely to have lower costs if they use contract collection. The average city of over 50,000 can expect to achieve significantly lower costs by contracting with a private firm for service, provided that its procedures for awarding contracts or franchises are at least of average effectiveness, and provided that the local refuse-collection industry is at least as competitive as it is in the average community. (Of course, not every city larger than 50,000 will achieve a lower cost if it changes from municipal to contract collection.)

For cities larger than 100,000 in population, pragmatic considerations suggest that the best approach may be to divide the city into two or more districts, each with at least 50,000 in population (this procedure results in no appreciable loss of economies of scale) and to have a municipal agency service one or more of the districts while the city contracts with one or more private firms to service the remaining districts. By doing this, a large city might best assure a continued competitive environment and protect itself against possible collusion by its contractors or coercion by its employees. Such an arrangement might also be expected to reduce the city's risk of service disruptions due to strikes or business failures.

The important strategic point is that a city should, if at all possible, retain some options in service delivery and some standard for measuring and comparing performance. While this door-to-door service industry does not lend itself to continuous competition—there are economies in providing exclusive service to all customers in an area—it does lend itself, in many cases, to periodic competition in the form of bidding for exclusive contracts or franchises of several years' duration.

Although the difference in cost between municipal and contract collection is substantial for cities of more than 50,000, the observed range is large enough for considerable overlap: in many otherwise similar cities, municipal collection is more efficient than contract collection.

Therefore, the first step for a city is to determine the true total costs paid by its residents for service, distinguishing between collection and disposal costs and being careful to include all cost elements. The feasibility and cost of alternative local arrangements can then be explored. If the community is small, there should be discussions and joint studies with adjacent communities to explore the possibility of achieving economies of scale by forming a more populous service area.

There is no danger that cities will plunge headlong into a change from their current service arrangements. There are many barriers to changing either from or toward municipal collection. But, at the very least, an objective and thorough examination of alternatives can help management-minded local officials make their current arrangements more efficient.

The basic issues in this study of one municipal service area, and the principles that emerged, would seem to have major policy import for many other government services. The analysis should provide support for public officials and citizens who are seeking ways to improve the productivity of local government.

The 1979
Richard S. Childs Lectureship
In Municipal Administration

A Strategy for New York City

Some controversial recommendations to balance the budget, to build the City's economy and to improve the quality of life.

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The starting point for this discussion of a strategy for New York City appears to be a digression, for I would like to look at the city of Moscow for a moment. The municipal government there plays a much greater role in all aspects of life than we are used to in the West. This has many negative features[1] but it also has a positive side: far more than their New York counterparts, city officials in Moscow think of their city in an integrated way, as a single socio-economic entity, a place that provides a livelihood to its residents in exchange for their productive contributions to society. This view permits them to think in terms of a coherent strategy for the city's continued evolutionary development.

By contrast, New York's municipal leadership has generally lacked this broad perspective and has had a much more limited view of the city.[2] Thus, the people and organizations outside the municipal government, those who produce the goods and services that have made New York a world capital, have usually been treated as a resource to be tapped to satisfy the political desires of city officials. There has been little sense of responsibility for the well-being of that resource, except in the narrow sense of supplying basic municipal services. It is only a mild exaggeration to say that New York's elected officials, at both the state and local level, extracted money from the city economy — residents and businesses alike — with little thought given to the long-term consequences to the city as a center of socially productive activity and of the cultural riches that accompany such activity. If we recall the meaning of the Greek root of the word "govern" — to steer — we can say that New York has had a municipal government apparatus but the city has not been governed.

To portray both cities in extreme terms, Moscow's leaders treat their city as a factory and run it like heavy-handed plant managers determined to reach their production quotas; New York's leaders have treated their city as a political playground and have had no discernible societal purpose in mind for the city. We have lacked a sense of what the city is, why it exists, and what role it plays in the nation, in the region, and in the daily lives of its citizens.

This is a serious and potentially catastrophic flaw. New York City needs a strategy for its survival and revival. For too long we have taken secret pride in our ability to somehow muddle through, to temporize, and to lurch thrillingly from crisis to crisis. I submit that this is no longer enough. To the maximum feasible extent in our democratic and pluralistic society, a reasonably clear and coherent set of broad policies is what we need to guide us through the next two decades, into the 21st century.[3] I say two decades, because it will take at least that long, in my opinion, to undo the ravages of the last quarter century.

With some humility, this lecture is offered as a discussion draft of such a strategy. It represents a determined effort to examine the forest, not the trees, and it proposes a way to get through the forest. It condenses and summarizes, hopefully providing a useful overview that is sometimes lost in the heat of the day-to-day crises that constantly beset the leaders of the City. Few of the ideas here are new — although some of them are rarely uttered. However, it is not likely that brilliant new ideas or conceptual breakthrough will come forth and save the day; there is no shortage of good ideas, but there seems to be a shortage of will or ability to implement them.

The strategy must take into consideration the following three basic elements:

(1) The external environment within which the city government will operate; that environment presents some obvious threats, or hazards, but it also offers some opportunities.

(2) The internal environment of the city government, which has some well known and glaring weaknesses, but also many important strengths upon which to build.

(3) The dominant goals and values of the people, as reflected by their elected officials.

A strategy, to make sense, has to take these key factors into consideration and merge them into a reasonably consistent plan. The strategy has to simultaneously build on the available strengths, capitalize on the major opportunities, guard against the serious threats, and overcome the critical weaknesses. The strategy proposed here attempts to do that. Based on my assessment of these factors, I conclude that the three paramount strategic goals, broadly stated, should be to:

— Balance revenues and expenditures
— Build up the City's economy
— Improve the quality of life

These goals are of equal importance and are obviously interconnected. For example, if the budget is balanced by cutting back services that reduce the quality of life, the middle class moves out, business exodus is spurred, and the City's economy declines.

These broad strategic goals do not represent a detailed plan or a blueprint; none is needed. Instead, all local government decisions should be weighed against these goals. Those that conform to the goals should be accepted and those that do not should be rejected. There is room for some give and take, and even for an occasional step backwards for every few steps forward, but these are the main directions, I submit, the course to steer or govern the city by. And the City Club, together with other institutions that are concerned about the future of New York, must watch to see that the city stays on course, however difficult it will surely be to do so.

Now let me address each of these three strategic goals and offer some specific suggestions in each area, reemphasizing however that there are extensive interactions among them.

BALANCING REVENUES AND EXPENDITURES

Despite the absence of scare headlines in the last two years, the fact remains that the budget is not balanced and will be seriously out of balance a year or two from now unless major steps are taken. While we can and should keep up pressure on Washington and Albany for more money, more equitable treatment (in schools, higher education) and takeover of welfare, etc., let's not hold our collective breath: Major infusions of outside money are unlikely. Self sufficiency is the only responsible alternative. Yet, we should not raise taxes. The answer has to be to increase other revenues and to decrease costs.

We can and should charge direct beneficiaries more for subsidized services; this is a rudimentary principle of public finance that we have lost sight of in our passion to redistribute wealth and to right the ills of the world. We should increase tuition in the City University and rents in public housing projects. We should charge tax-free institutions and tax-free housing projects for municipal services. For example, not only should full water and sewer charges be levied, but also the cost of fire protection, refuse collection, building and elevator inspections, and other municipally provided essential services should properly be charged to those recipients as well. At present, the city pursues the anomalous policy of *not* providing tax-financed services such as refuse collection to properties that pay taxes, but providing them free of charge to properties that do *not* pay taxes!

Cutting Costs

It seems inevitable that those services that go well beyond the call of municipal duty must be trimmed. The city should gradually get out of the in-patient hospital business and the graduate-level education business, and day care that requires city money. Furthermore, those who benefit by using services should pay for them to the maximum possible extent.

As for the problem of the poor, who make such heavy demands on city services, remember that poor people are poor, not stupid. Therefore, it should not be surprising that their immigration into New York seems to have halted, and some are moving out of the city to areas — near and far — where they have a better chance at a better life; New York no longer offers that hope for them. These are welcome shifts that should not be hindered, regrettable though it may be that poor people, like so many in the middle class, no longer find New York attractive or inviting enough to live in.

Just as employed professionals are constantly on the move, taking advantage of better opportunities elsewhere, similar incentives exist for the underemployed and unemployed, and they should not be impeded by government policies from similarly acting in their own best self-interest. Welfare benefits should be uniform across the country, not pegged to the local cost of living; this would create an economic incentive for welfare recipients to move from high-cost areas like New York to places with lower living costs like the Sunbelt and rural areas. Social security payments are the same regardless of where the recipient chooses to live, and as a result many elderly people return to their places of birth in Greece, Italy, Poland, and Hong Kong, where they deem life to be better for them than it would be in New York. A similar phenomenon occurs in the Midwest, where elderly couples living in mobile homes winter in the southernmost reaches of Texas, where their money goes farther, their bones are warmer, their joints ache less, and their heating costs are minimal.

What all this means for New York is that we should not go to excessive lengths to subsidize the poor to stay in New York. If public services and expenditures that benefit working people have to be cut back, those that benefit the non-working poor should not be exempted and should also be cut back. The result should be a pattern of outmigration that is not so heavily dominated by the middle-class and the wealthy, as it has been for years, but one that more nearly matches the economic mix of the current population. And if poor people find other places sufficiently attractive, then there will be a relatively larger tax base in New York to provide support for each poor person who remains. In other words, we would have a situation where the ratio of middle-class people to poor people starts climbing, instead of continuing to drop, and the poor people who remain would be more readily assimilated. Thus, although they would be more limited in numbers in the aggregate, each person would be less limited in his or her prospects for a decent life; they could more readily reach the bottom rung of the ladder to start their climb upward.

It should be made crystal clear that this is an *economic* and not a *racial* policy; the city should make every effort to retain working Blacks, Whites, and Hispanics — and this policy is intended to help do just that.

Personnel and Labor Relations

Balancing the budget, and doing it in a way that does not cut services, requires profound changes in the management of the municipal work force to increase productivity. Expenditures for personnel will have to be cut. Instead of permanent raises the city should make greater use of one-time bonuses, where necessary and where affordable. However, the major savings will have to come by reducing the number of employees, but without reducing the services that affect the quality of life. Part of the resulting savings should be given to the remaining employees in exchange for increased productivity. Thus, the income of workers will rise, although the income of their unions may shrink because of smaller membership. The rest of the savings should be used to reduce debt service. A controlled form of bankruptcy should be seriously evaluated as perhaps the best way to change the pension picture, which is unfair to all working citizens who are not municipal employees.

How should the work force be cut back? Reducing it through attrition is politically painless but blind (because agency cuts occur at random, not by design) and counterproductive (because it tends to cull out the best people, who can get jobs elsewhere). Doing it by forcing early retirement is economically sound (because older workers generally have higher salaries) but fundamentally unfair. Doing it by firing those with least seniority is legal, but it is also unfair and means laying off proportionately more Blacks and Hispanics (because they are the newest entrants into the municipal work force). Instead, layoffs should be carried out according to merit — by discharging the least productive workers, not the oldest or the newest or the darkest. This requires (1) a revitalized employee performance evaluation system; (2) changing the traditional interpretation of civil service rules, which make it difficult to fire incompetents; (3) taking full advantage of the law that workers who strike can be put on probation for a year, then firing those who are not performing well and keeping only the better ones.

Some have argued that it is impossible to measure the productivity of most municipal employees due to the intangible nature of the services they provide. However, nothing very sophisticated will be required, at least in the first few years of such a program. The simplest measure of productivity is attendance: Does the employee come to work regularly? Enough workers fail this rudimentary test to commend its wider use. Similarly, workers found "goofing off" on the job should be fired forthwith. Simple "performance tests" such as these should be sufficient to accomplish much of the needed cutback, without resorting to the undiscriminating but discriminatory meat-axe methods referred to above.

The term "merit system" can no longer honestly be used to describe the city's civil service system. In fact, most large firms follow personnel practices that come much closer to the ideal of the merit principle. To restore merit to the system, changes in testing, selection, and promotion policies and an expanded ability to hire from outside the system are needed. Promotions, raises, and bonuses should be more closely related to performance on the job. An effective procedure for evaluating employees has to be instituted. Managers and supervisors should be required to rank their subordinates, and cash bonuses should be given only to the top-rated fraction on the work force. Finally, serious consideration should be given to eliminating civil service coverage of employees who are in collective bargaining units, for this is a redundant system of employee protection that does not benefit the public.

Basically, the city needs a modern personnel management system instead of the current system that merely administers civil service rules and regulations. The City must recognize that its workers are its most important resource. Neglect of workers coupled with cave-ins at the bargaining table and failure to insist on a full day's work for a full day's pay have been a prescription for disaster: a sullen, demoralized work force instilled with the belief that management doesn't care and doesn't respect city work or city workers. During the next few years workers cannot be given much money, but they can be given more job satisfaction and pride in their working lives. More positive, real concern for worker satisfaction and worker problems, plus fair demands for good work performance and fair use of all legitimate disciplinary actions will produce, *over the long term*, a better, more motivated and more dedicated work force. This attitude will enhance the ability of the city in its dealings with municipal unions. The latter have filled a vacuum and have been the beneficiaries of managerial neglect of the personnel function. Improving the quality of working life is a low-cost way to get more productivity and better quality work.

This means competing with unions for worker loyalties — a fair and potentially rewarding contest for both workers and the public. As one small step, individual workers should be allowed to choose the "mix" they want in their own personal remuneration package (for example, more pay but fewer fringes). Also, the city should take full credit for those city-paid fringes that are now funneled through the unions with the deliberate intention of deceiving workers into believing that the benefits (e.g., dental insurance) are financed out of union dues. ("Truth in fringe-benefit packaging.") The unions, not the public should pay for full-time union representatives who do no productive work for the city, and the city should charge what the traffic will bear for providing dues check-off services to unions.

Union relations will continue to be a problem. The city must enter labor negotiations with clear goals and full knowledge of financial and service implications. Once again, the experience of the 1978 negotiations proved the need for this. The city has yet to use all its power to bargain aggressively and to insist on specific improvements in work practices and work loads without sacrificing its management prerogatives. The unions that are used to easy success at the bargaining table are not yet ready for co-equal determination; they may have to lose a few strikes before they and the city can advance to a more mature level of labor relations.

The city should use all legal weapons to prevent, limit, and terminate strikes, and it should employ all available sanctions to punish those who strike illegally. "Spontaneous" work slowdowns are illegal and should be countered with "administrative delays" in forwarding city-collected dues to the union and pay checks to the participating employees. The city should not seek strikes, but it should be prepared to win them if they occur. It should prepare for all eventualities and plan to continue delivering services during strikes; it's the best guarantee that strikes won't occur. It can hire private firms and use volunteers to provide services during some strikes, and the public will support such efforts, but police or National Guard protection will be essential for continued delivery of some services.

Using the Private Sector

To increase productivity, the city should contract with private firms to perform at least a portion of some services. Done right, this will reduce costs and generate taxes. For example, competitive bids should be solicited for each of the city's 59 Sanitation districts, and the cost of municipal service should be compared to the bid prices. Gradually, over several years, half of the districts should be serviced by contractors. Based on national statistics, the savings should be substantial: $75 million a year. *These would come about through more productive work practices and because contractors would use 2-man crews in more suburban parts of the city, instead of using 3-man crews in all parts of the city as the sanitation department does.* Furthermore, it seems unnecessary for the city to pay an unskilled municipal refuse collector wages and fringe benefits that amount to approximately $25 per hour worked.

Contracting would foster competition between the public and private sectors, for each would serve as a standard of comparison to measure the performance of the other, thereby significantly reducing the monopoly power of the union and reducing the city's vulnerability to strikes. Boston, Montreal, New Orleans, Kansas City, Oklahoma City, Phoenix, Minneapolis, Nashville, Jacksonville, and Newark all follow this practice, to the benefit of their residents.

Contracting can be utilized for many other services as well, including building and school maintenance, cafeteria operations, catch-basin cleaning, street repaving and cleaning, and lawn maintenance in the parks. To assure competition, the city should encourage the creation of indigenous, community-based firms that would compete with city agencies to deliver public services. City agencies should be given a chance to compete by inviting them in effect to submit lower bids for doing the same work.

It is not that the city does not contract for services at present, but it fails to pursue this approach aggressively as a conscious strategy to improve the quality of services and drive down their cost. Maintenance and repair of street lights and traffic lights are already being carried out under contract but the city virtually abdicated its responsibility and did essentially no monitoring of its contractors' performance. Competitive bidding for school bus transportation turned out to be a disaster because the Board of Education, despite its chancellor's position on the issue, foolishly required all bidders to adopt the unproductive and costly practices of the previous monopoly supplier of the service. The city should create small districts for contracting out its work, in order to encourage more firms to participate in the bidding, and should be organized and prepared to carry out its responsibility of systematically monitoring the work.

Other candidates for privatization can be found in the Parks Department. Why should the municipal government own and operate golf courses and tennis courts? Most such facilities throughout the country are owned and operated by private groups, either as voluntary non-profit associatons or as for-profit recreation. The city should sell its courses and courts to the highest bidder, with the zoning proviso that they continue to be used for these recreational purposes.[4]

The possibility of selling or giving away some of the city's streets outright, to local civic associations, is not outlandish either. After all, there is ample precedent in the city for private ownership of local streets, in Brooklyn (Sea Gate), Queens (Breezy Point), and in the Bronx (Fieldston). The civic associations clean, maintain, and remove snow from their streets, and often patrol them too. At present, these local residents pay twice, just as parents who send their children to private schools pay twice. Such ownership can be encouraged by giving the members of such associations, whether they are owners of one-family or multi-family dwellings, appropriate rebates on their property taxes.[5]

Local civic groups can also be given responsibility for parks, in partnership with the parks department. Central Park, perhaps the world's most famous urban park, in recent years has come under the healthy influence of the Central Park Community fund, a civic group that raises substantial private funds and lavishes loving care on the park. In Great Britain there are "amenity associations," local groups that receive lump sums from the government to maintain parks and playgrounds.

Transportation

Another area where private enterprise can reduce costs and improve service is in transportation. The greatest improvements in mass transit in New York City can be achieved not by subway construction but by better utilization of the surface network of streets and roads. At present this network is overburdened with private autos that (1) receive subsidies in the form of tax-supported street construction and street maintenance, and (2) impose external costs on others in the form of pollution and congestion. It would be sound public policy to require those who drive their own autos into the central business district to pay the full costs of their acts, by suitable tolls or taxes.

But if the motorist is to be dissuaded in this manner from driving in the city, he must be offered reasonable alternatives. At present, the alternatives are few: franchised taxis and government-run buses, plus a few private bus lines.

The best single step that New York can take to improve its mass transportation is to drop all barriers to entering and operating in the surface transportation business. The city franchises about 13,000 taxis (the number has been essentially constant since the 1930's) and effectively prohibits efficient shared-ride operations. There should be no limit on the number of taxis, nor should there be any rate regulation. If that were to be done, one could predict that far more taxis would be available; there are at least 20,000 cars for hire now, but they are not permitted to cruise and, legally, can pick up passengers only by appointment. Legalization should produce a drop in prices and ride-sharing would become commonplace. In time, regional associations of taxi operators would emerge and become well known by brand name, with known rates, features such as air-conditioning and stereo music, etc.

Anyone who wanted to operate a shared-ride system, that is, a bus or a jitney cab, would do so, and suburbanites would be free to form vanpools and subscription bus groups to come to work in the city. There is no shortage of entrepreneurs who wish to provide urban transportation for hire, as evidenced by the presence of unauthorized "gypsy" cabs in such widely disparate cities as Moscow, Belgrade, New York and Hong Kong. No exclusive franchises need be awarded for particular routes; the market place is quite adequate to permit an entrepreneur to determine what route to travel, what size vehicle to use, how often to run, and what fare to charge. Obviously, it behooves the operator to be reliable, and to run at a known frequency or schedule at a publicized fare.

In New York, it was private bus lines that pioneered express service from outlying neighborhoods to downtown, as the Metropolitan Transportation Authority (MTA) tried mightily to prevent this diminution of their near-monopoly position. The potential of free competition is not to be dismissed, in light of the fact that some private bus lines actually earn a profit on their fares, while the MTA loses money on each ride although it charges the same fare. One reason why MTA bus operations are so costly is that some of their bus drivers work four hours a day but are paid for more than ten: they are rewarded handsomely for the "hardship" of taking a paid, Mediterranean-style, mid-day break after driving during the morning rush hour and before driving during the evening rush hour. It doesn't require a transportation expert to recognize that part-time drivers are what is needed, and to see the virtue of a system in which someone drives his fellow employees to and from their common place of work in a vanpool.

If the elimination of all barriers to entering the transportation business is deemed too drastic a step, a more cautious way to begin is to call for competitive bids for particular bus or jitney routes, with the bid specifications setting forth the desired frequency of service and the fare that is to be charged. Bids may be either positive or negative, that is, the price the bidder will pay into the city treasury for the privilege of operating that route under those conditions, or, if the bid is negative, the subsidy requested in order to provide that service. The bid that is most advantageous to the city would be chosen.

Social Services

We have lost sight of the fact that the family is the original department of health, education, and welfare. For example, since time immemorial parents have arranged for relatives, friends, and neighbors to care for their children, and they have taken into consideration the character and qualities of the individual to whom they've entrusted their children and the conditions of the surroundings in which their children will be placed. In recent years, however, day care has emerged as the object of increasing government involvement. The result has been an increasingly complex web of legal restrictions as to who can provide the service, the number and type of personnel who must be in attendance, the nature of the facilities, etc., with the absurd consequence that most children live in homes that would not be approved by government as suitable for the care of children. Load shedding is the strategy to follow for day care. Surely voluntary arrangements will re-emerge to fill the need, and one can even imagine a McDonald's starting a franchised day-care business.

BUILDING THE CITY'S ECONOMY

Despite the all-too-commonplace image of the big corporation moving its headquarters from the city to the suburbs and taking its jobs with it, it is the thousands of small, anonymous businesses that provide most of the jobs in New York. City policies should be aimed at helping them survive, prosper, and multiply, reinforcing the city's traditional role as an incubator of new businesses by drastically reducing city-generated red tape and regulations and by eliminating nuisance taxes. The city should also rectify the inequity in property taxes, which discriminates against businesses and tenants in favor of homeowners. The latter have a much better deal than their counterparts across the city border, and would pay higher taxes instead of moving.

Small businesses are particularly vulnerable to extortion by petty criminals and labor racketeers. Special efforts by a task force composed of police and prosecutors are needed to protect the small businessman by combatting such crimes.

Without more jobs, the City's downward spiral will continue. A change in climate to encourage private initiatives is the biggest need. Major expenditures of city funds are not required, except for the convention center. Capital funds should be reserved for that, for rehabilitating the port, creating industrial parks, and maintaining the physical infrastructure for water supply, streets, and transportation.

Few people recognize that the port is what made New York a great city. The Erie Canal connected the city to the middle of the continent and enabled it to surpass all other East Coast ports as a natural point of trade. Today that legacy is a faint shadow of what it once was, and other nearby ports, notably Baltimore, have taken away much of its business as a result of a clear and well-planned strategy. But New York still has some advantages and they should be exploited to revitalize port-based economic activity. The difficulty of doing so is in large part due to labor problems. For example, it is cheaper to ship Long Island potatoes from Suffolk County by rail through New York City to Albany, and to load them there aboard ships that sail past New York across the Atlantic, than to bring them into the city to be loaded! Possibly an accommodation can be worked out whereby the City will press the Port Authority for more investment in pier facilities within the city, and will itself do more, in exchange for union acceptance of productive practices.

It's interesting to contrast the thriving, expanding, job-generating office industry with the declining, featherbedded port and construction industries; the office industry has introduced and embraced technological labor-saving devices — computers, calculators, accounting machines, copiers, automatic typewriters, automated telephone devices, and dictation equipment — while the dock workers oppose containerized cargo and the construction workers oppose prefabrication and plastic piping. The selfishness of port and construction workers, many of them living in the suburbs, is harming hundreds of thousands of other workers.

The city's misuse of its locational advantage on the coast does not stop at the docks. Much of the shore along Coney Island and Rockaway Beach has been used for subsidized housing. What a waste. Anywhere else in the world such magnificent strips of valuable beachfront would be used for luxury housing and premium-grade resorts, which would provide jobs and large property tax revenues.

It's too late to do much about that choice property now but, in general, the city should sell off as much municipally-owned land as it can and let the private sector, even profiteers, convert it to productive use. This would raise capital funds and add to the tax base. If entrepreneurs, encouraged by down-zoning, can convert abandoned residential areas of the South Bronx into thriving commercial and industrial sites, more power to them. Let this be done even without master zoning plans, long-term goals, and the like. Perhaps the South Bronx can replicate the success of cities in developing countries where the lure of the quick buck together with weak or readily evaded zoning and building codes produces boom towns. It is hard to imagine how the result could be any worse than the present situation.

A prime candidate for privatization is the housing sector. Shelter from the elements is, together with food, the most basic human necessity. This need is satisfied through the market place for the vast majority of Americans, but in New York the housing market has been supplanted to a significant degree by other supply arrangements, with most unhappy consequences. Of the 2.8 million residential housing units in the city, 1.2 million are under some form of governmental rent control, 30,000 are in the city's hands because their owners did not pay their real-estate taxes, 176,000 are in public housing built expressly for that purpose, and 124,000 others receive some sort of city or state subsidy, through tax abatement or whatever. In other words, only half of the city's housing stock is now provided through the normal market mechanism.

The effect of this large-scale intervention by government has not been a noteworthy success. Although it may be unfair to attribute all the city's housing ills to these policies, the results are well known: abandonment of structurally sound buildings, destruction of neighborhoods, and the prevalence of slums — with the city itself as the nation's biggest and most notorious slumlord, owning and operating far and away the largest number of slum dwellings.

Rent control was established shortly after the Second World War because of a temporary shortage of housing. By what line of reasoning price controls might have been expected to increase the supply of housing remains both obscure and a monument to economic illiteracy. Nevertheless, rent control has been retained and expanded on the grounds that the housing shortage persists unabated to this day. This is a curious assertion considering that the city's population has declined by about ten percent since its peak. Evidence that purports to show this alleged shortage is based on the observed vacancy rate. However, the rate calculaton *excludes* empty, abandoned units. What is more, citing a three percent vacancy rate as evidence of a housing shortage is somewhat akin to declaring a hot-dog shortage unless the number of frankfurters grilled is substantially greater than the number eaten.

The construction of many units of government and government-subsidized housing, combined with the loss of population and the inability of owners to earn an adequate income under rent control, goes far to explain why so many housing units have been abandoned.

While abandonment has proceeded apace, spurred by myopic government policies, the construction of government-aided housing has had other unfortunate results. As an example, the favored, middle-class tenants of Co-op City banded together and exerted their considerable political pressure to avoid paying the full costs of their housing, thereby taxing their fellow citizens — most of whom have lower incomes — to foot their housing bill. That this is not an isolated occurrence is indicated by the state comptroller's warning that by 1983 only 4 out of 113 state-assisted housing projects will be in the *black*, although all of them were designed to generate sufficient rental revenue to meet current operating expenses and low-interest mortgage payments. The tenants do not want to pay even the subsidized cost of their housing, political leaders are loathe to force them to do so, and the state, which guaranteed the mortgage, is left holding the bag and using taxes to cover the difference.

Given these enormous distortions that have occurred in New York's housing arena since the large-scale deviation from market operation, the future would appear bleak. However, signs of economic rationality are beginning to reappear, although admittedly in a bizarre fashion. The city, falling heir to more and more buildings because of tax arrears, found that it, too, was unable to operate the properties except at a loss, even though it doesn't have to pay taxes on these newly acquired properties the way the former owners were supposed to. Thereupon, the city promptly passed a law eliminating rent control on its buildings, thus enabling it to sell the housing on the open market at auction. This pragmatic approach is thoroughly inequitable because it amounts to simple expropriation, but at least it is a belated if ironic recongition that the market mechanism may be the best way to provide housing.

It is also instructive to look at the mushrooming activity of converting lofts to living quarters. This is essentially an unregulated, free-market process — often technically illegal in terms of building and zoning codes — but it is resulting in the creation of many excellent apartments and of desirable, livable, middle-class residential neighborhoods.

The move toward the market can be aided by changing a particularly mangled form of rent voucher, namely the rent supplement that is given to welfare recipients. Instead of including a predetermined allowance for housing in the regular monthly welfare check, or at least giving a rent voucher in a fixed dollar amount to each welfare family, the rent supplement is treated separately and given to the welfare recipient to pay the going rent in the building he or she happens to inhabit. Thus, two families that are otherwise in equal circumstances may receive drastically different rent allowances depending on where each has chosen to live. Such unequal treatment is inherently unfair; just as food and clothing allowances are calculated according to a standard formula, the housing allowance should be handled the same way, and each family should start on an equal footing and, using a true voucher or — better yet — cash, should purchase its housing in the open market. (However, one should note that an important experiment involving a direct cash subsidy to low income families revealed a marked indifference to the program. Families were generally satisfied with their housing and did not want to receive and spend more money that was earmarked for better housing.[9])

Public housing projects, designed as warehouses for the poor, often concentrate problem families in a small area, in many cases destroying that neighborhood. Again, it would be better to provide rent vouchers and let the marketplace bring about a match between dwellings and tenants, thereby providing more freedom of choice to low-income families and probably reducing the cost to the taxpayer by selling off inefficiently run public housing. If this were done, it is likely that housing which would otherwise be abandoned would be occupied and saved, while public housing would lose some of its clientele, just as the municipal hospitals lost theirs when low-income families were granted, through Medicaid, freedom of choice in health care.

There is yet another area of the housing field where a different method of providing service can bring about a major improvement. Building codes are imposed by the city government with the intent of assuring public safety. In fact, however, their dominant effect is to force residents to pay for costly and archaic construction techniques, featherbedding, and corrupt inspectors. The National Commission on Neighborhoods found that building codes in the United States add significantly to the cost of rehabilitation and recommended features of the system used in France:

- a code for safety-related matters
- performance-based guidelines (not standards) for construction
- liability of contractors for building components and construction

If this were done in New York, one could anticipate that, as in France, safe construction would be enforced by the marketplace as builders purchase insurance to protect themselves against claims, insurance companies hire inspection firms, and banks make building loans preferentially to insured builders.[7]

People should be required to pay the full cost of their housing, for they are the personal beneficiaries of this service. The city should gradually move toward the elimination of rent controls, indirect subsidies, and tax abatements, and slowly divest itself of public housing, while using rent vouchers for the indigent. The result of these actions would be that low-income residents would not have to support the middle-class in Coop City and similar housing projects, and the middle class would pay the full cost of heretofore rent-controlled and rentstabilized apartments.[8] If at the same time government- aided featherbedding in the construction industries came to an end, it is likely that the marketplace would ultimately reassume its historical position as the principle provider of suitable housing for all. After all, it worked this way for the first three hundred years of New York City's history and succeeded in absorbing huge waves of penniless immigrants.

IMPROVING THE QUALITY OF LIFE

The most serious continuing threat to the city is the widespread belief that people can enjoy a higher quality of life elsewhere, for the same cost of living. This belief has a sound foundation, even though it is not commonly thought of in the following way: the total per capita municipal debt is about $3,500 (including interest payments, unfunded pensions, and debt-like commitments). Now remember that this huge debt for the most part represents payment for past services — very little is the normal sort of debt for capital facilities such as roads and schools that have a long life ahead of them and should rightly be paid for by future as well as present users. It is primarily the local citizenry who will have to pay off this sum, whether directly through more or less visible taxes or by paying higher prices for goods and services that are in turn subject to local business taxes. (In 1979, 24 percent of current taxes went to pay the interest and principal on this debt.) However, a family can legally avoid this onerous burden — $14,000 for a family of four — by the simple expedient of moving out of the city. By doing so, a family can use its $14,000 to buy current services, including housing.

Fortunately, neither the world nor New York is inhabited by the abstraction called perfectly rational economic man. New York is a wonderful place to live in even if it does not make economic sense to do so. Nevertheless, the city's survival depends ultimately on a higher quality of life for its residents. Therefore, better methods of delivering public services are needed.

The most promising way to improve the quality of life locally is through decentralization — giving people greater control over the services that affect their daily lives. A city resident is dissatisfied in part because he feels that he cannot influence the safety of his family, the education of his children, the behavior of his neighbors, the appearance of his physical surroundings, or the cleanliness of his block.

The problem arose when the Industrial Revolution separated the place of residence from the place of work. As more and more people started working at sites distant from where they lived, they could no longer pay attention to the immediate environment around their homes and had less reason to interact and cooperate with their neighbors. They started paying people to educate their children, police their streets, protect their property, pick up their litter, and so forth. In other words, the individual has been "contracting out" for his local needs, but has done it without writing good specifications for the work to be done and without establishing good systems for monitoring the performance of the "contractors" — the city agencies — that are doing the work on his behalf. In short, people's citizenship skills have atrophied from disuse. Reacquiring and exercising these skills is necessary for a democracy to work well. For this to happen, the individual, together with his or her neighbors, must reassume a greater responsibility for self government. The key to doing this is decentralization.

The new city charter brought about the first few steps toward a more decentralized city government, dividing the city into community districts and strengthening the fledgling powers of the corresponding community boards. This welcome situation has great potential for improving services and otherwise improving the quality of life. There is an immense reservoir of talent and energy in the neighborhoods, ready to be tapped. Additional powers should be delegated to the communities, so that people may have greater control over the services that affect their daily lives in their immediate surroundings and to produce a better match between authority, responsibility, and accountability. This would also be expected to reduce the feelings of helplessness and alienation, and to strengthen the local social bonds that are needed for people to live together in a densely populated urban area.

The districts, with an average population of 125,000 each, are logical units to be given full responsibility for many local services, for few services exhibit economies of scale beyond that size. With such responsibility, each district could make its own decisions as to the organizational arrangements to be used to deliver the services. Some would establish local district government departments (as in London and Moscow), some would contract with other districts, others would contract with a city-wide government agency (analogous to the practices in Los Angeles County), still others would contract with private firms, and some would no doubt create voluntary associations to perform certain functions. The opportunities are endless for evolving service patterns that satisfy local needs and preferences.

Suppose that a neighborhood in New York were to have a small discretionary budget for services. One could then imagine the following dialogue between the community board and a city-wide parks department:

Citizens: We would like to spend $100,000 more this year for better maintenance of our parks and playgrounds. What will that buy us?

Department: (thumbing through the city's rate book) Umm, let's see now . . . oh, yeah. For $100,000 you get a pickup truck, two men, a shovel, a rake, and a stick with a nail at the end of it.

Citizens: What? That's all we get for $100,000? Forget it. We can get a better deal from Joe's Lawn Service.

At the very least, such sobering exchanges will have the effect of educating citizens as to the cost of their "free" services.

One effect of multiple service arrangements is to increase the overall reliability of services. At present, a strike in one department affects the entire city; but by dividing the responsibility among numerous geographic units, with a rich variety of service arrangements, the breakdown in service would be confined to a single, small area and therefore would be far more limited in the impact on the populace.

Some would say that decentralization will result in a diminution of public control. But elected officials do not now have effective control over service-delivery. No one does. Decentralization is likely to increase public control.

Greater reliance on voluntary service also is in order, and can be encouraged by the city even without further decentralization. Many well-knit communitiees in the city take a great deal of pride in operating volunteer ambulance companies. Such efforts deserve recognition and reward, through modest subsidies that will encourage more such units to be created. These would supplement and then supplant part of the municipal ambulance corps.

Voluntary arrangements are increasingly common throughout the city for protection against crime, through escort services, tenant and block patrols, and mobile neighborhood patrol in radio-equipped private automobiles. Private guard services are retained by homeowner associations, block associations, local chambers of commerce, and owners of hotels and apartment complexes. All of these private, cooperative arrangements add significantly to people's feelings of security in their neighborhood.

Education

The problem of public education in New York is critical. Most students are below the national average in reading and mathematics. Teachers attribute the problem to conditions in the home. Parents blame uncaring teachers. The education establishment wants more money spent on the problem. No one has a sure prescription for teaching inner city children.

What should you do when you don't know what to do? The answer: Do many different things. Nature experiments incessantly with mutations. This enables species to evolve, adapt, and survive despite drastic environmental changes, for some of these experimental varieties turn out to be better suited to the new surroundings than the original model, and ultimately replace it. Similarly, a variety of educational approaches should be encouraged to see which ones can prove themselves fit and able to educate the city's children. However, today's monolithic public school system is inadequate, yet it cannot effectively facilitate broad experimentation or tolerate alternative pedagogical approaches: diversity has never been the strong suit of government. The city's traditional and blind insistence on a government education monopoly is stunting the education of a million children and wasting the efforts of many dedicated teachers. Education that truly meets the needs of the public can be achieved only by allowing the public free choice to sample, judge, and individually choose their children's education.

The government monopoly is particularly stifling in that, for the most part, pupils must attend a particular school in their geographic area; generally they are not free even to attend another school within the monopoly. Clearly such a policy is designed for the administrative convenience of the school system rather than for the educational advantage of the child. (Since this was written, the Chancellor announced his intention to allow greater geographic choice.)

Public schools do not have a true monopoly in New York; there are many other schools, of course, both private and parochial, and their enrollments have been rising as parents scrimp and save to enroll their children in them. But such parents are paying twice over for education, once through taxes to support the public schools they reject, and once through tuition payments to the school of their choice.

New York should extend freedom of choice to more parents. As a first step, tuition charges up to a certain amount should be free of federal, state, and local taxes, as proposed by Senator Daniel Patrick Moynihan of New York. This would enable more parents to afford sending their children to private schools. The second step would be to issue vouchers to parents who would then send their children to the school of their choice and pay by means of the voucher.

As to the charge that private schools are elite institutions and merely a subterfuge for racism and class segregation, the evidence does not support such an extreme view. Detailed data for New York City private schools are lacking, but in California, the nation's most populous state, private schools have a larger percentage of Black and Hispanic children than do the public schools; in the Northeast, children in private schools and in public schools have similar distributions of family income.[9]

Unquestionably there is a need for a common education that will produce a broad consonance of basic societal values, and a knowledge of shared history, but these do not require a government education monopoly; they can be realized even in a pluralistic education system if government sets requirements for inclusion and mastery of certain material in the curriculum and if it prescribes standard tests to measure the performance of different schools. The test results would be disseminated broadly so that parents could take them into consideration when choosing schools for their children. Parents would have available a buyer's guide to education services, a hybrid of Lovejoy's College Guide and Consumer Reports.

Opposition to any change is to be expected of course, particularly to the idea of a voucher system. But vouchers can be tried on a more limited basis, for parents of handicapped children for example. They could also be used for on-the-job training in private firms. The latter is a superior alternative to conventional vocational education, for a private firm has an incentive to prepare a trainee for a real job and not for an obsolete craft. In Minneapolis, a large computer firm competes with local schools to provide manpower training; the same sort of activity can readily be envisioned in New York, where white collar and service jobs remain unfilled because residents are inadequately educated for them. The city could go further and gradually "load shed" all vocational education, which at present inadequately performs the task that more properly belongs to employers. Any way one looks at it, such training directly benefits both the employer and the employee and does not require government as an intermediary. Alternatively, a Board of Vocational Education could be established with strong representation from the job-creating sector. Some of the vocational education budget could then be given to employers to subsidize on-the-job training as part of a diploma requirement.

This raises the related issue of the extent of compulsory education. Too many older teenagers are forced, against their wills, to enroll in schools although they will not attend regularly and truant officers are ineffective in getting them to do so. When they do attend, they are the principal cause of violence and disruption in schools, so that their presence results in less total education taking place than if they were absent. Why force someone to consume a costly service that he does not want? Permitting students to end their formal schooling at an earlier age is likely to lead to improved education for those who choose to continue, while opening up to the "drop-outs" — a less pejorative term will be needed — opportunities for on-the-job training at public expense via vouchers or private expense via wages. The latter choice will require a more realistic minimum wage to be paid to such apprentices, inasmuch as they are not yet fully productive workers. Remedial education opportunities should be available for them when and if, as they get older, they desire to resume classroom learning.

Public expenditures for higher education should also be disbursed through a voucher system. There is ample local precedent and experience for this approach. When the number of vouchers issued is limited, they are called scholarships. The State of New York already has such a voucher program: it awards Regents Scholarships on the basis of competitive examinations to state residents, to be used in any institution of higher education in the state. The GI Bill offers further evidence that vouchers work well for higher education. It was a broad-based voucher system that was not very restricted, and it can serve as a model for New York City. Thus, instead of spending more than a third of a billion dollars a year in taxes to support a city university system, the city should give eligible students vouchers that they can use for tuition in the school of their choice.

Some might object to this approach in the mistaken belief that low-income families would suffer. This is not the case at all. The poor subsidize the wealthy when it comes to higher education. Studies in Wisconsin and California show that the average income of families *with* children in the respective government universities is substantially greater than that of families *without*. The effect of these public universities is to "promote greater rather than less inequality among people of various social and economic backgrounds by making available substantial subsidies that lower income families are either not eligible for or cannot make use of . . ."[10]

All of these programs would accomplish the purpose of introducing competition to the sheltered city university system. This would alleviate institutional torpor and produce better education. Furthermore, it would restore to the consumer greater control over a service that affects him directly and individually.

CONCLUSION

This has been an admittedly ambitious and somewhat presumptuous attempt to suggest a comprehensive strategy that can guide municipal decisions during the next twenty years. The three overriding goals should be to truly balance the budget, to build the city's economy, and to improve the quality of life. Recommendations — many of them controversial — are set forth toward each of these goals. They include user charges, cost-cutting measures, better management of the municipal work force, greater use of the private sector, greater reliance on voluntary private actions, encouragement of small businesses, revitalization of the port and shorefront, decentralization of service delivery, and more citizen choice in selecting services. It is difficult to imagine a successful recovery for New York without a coherent strategy that incorporates at least some of these elements.

NOTES

[1] *For example, Moscow can also be viewed as a company town, where the company is the state, the municipal government is the local agent of the state, the city is one large plant that produces goods, and the job of municipal government is to feed, clothe, and house the workers and their families, and to provide recreational and cultural activities during work breaks.*

[2] *In their defense, it must be pointed out New York's officials have much more limited formal responsibility for the economic activities that take place within the city boundaries than do Moscow's officials.*

[3] *The 21st century is not so far off: we may have only one more mayor before then.*

[4] *But such a restriction should not be eternal — there is a fad element to sports and while tennis and other racquet sports are booming today, in a decade it is possible that horseshoes, lawn bowling, or curling may be all the rage, and golf courses may be more in demand for off-road recreation vehicles or as physical-fitness courses.*

[5] *Houston, Texas, and Kansas City, Missouri, give such rebates to civic associations that choose not to receive certain municipal services but to provide them at their own expense instead.*

[6] *"An Expensive Housing Experiment,"* The Public Interest, *No. 56, Summer, 1979, p. 117.*

[7] *Robert W. Poole, Jr., "Rethinking Building Codes,"* Fiscal Watchdog, *No. 29, March, 1979, Local Government Center, Santa Barbara, Calif.*

[8] *Note that rent control for the elderly often amounts to a subsidy to high-income families who live in the suburbs and leave their parents in rent-controlled housing in the city.*

[9] *Thomas Vitullo-Martin, "New York City's Interest in Reform of Tax Treatment of School Expenses,"* City Almanac, *vol. 13, no. 4 (December, 1978).*

[10] *Murray N. Rothbard,* For a New Liberty, *Macmillan Publishing Co., Inc., New York, 1978, p. 138.*

REDISCOVERING GOVERNANCE: USING NONSERVICE APPROACHES TO ADDRESS LOCAL SOCIAL WELFARE PROBLEMS

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OVERVIEW

This report is being submitted as an exhibit for the record, in conjuction with a forum on Alternative Service Delivery being held by the Senate Subcommittee on Intergovernmental Relations on July 28 to 30, 1981. The report is excerpted from a document prepared for the Department of Health and Human Services by SRI International.

This report examines innovative local approaches to social welfare problems that rely on the improved use of local governance powers (such as regulation and tax policy) and nongovernmental resources (such as private corporations and community groups). These approaches have been collectively termed "nonservice" by SRI to distinguish them from traditional publicly financed service approaches to community problems.

While this report focuses on social welfare issues, SRI and others have conducted, over the past 4 years, a broad array of research into how such nonservice approaches can be used to address problems in such diverse areas as neighborhood revitalization, assistance to low-income people, small business development and refugee resettlement. Over 1,000 examples of how community problems can be addressed without relying on public services have been documented and analyzed. Several guides on the use of nonservice approaches have been developed for local practitioners, and some limited technical assistance and demonstration activities have been initiated in a number of communities.

These research efforts have resulted in the development of an analytic framework that can be useful to communities in assessing what policy tools and resources they have for addressing particular local problems. As this report indicates, there are six categories of nonservice approaches that local governments can use to address issues of employment, shelter, consumer cost, mental and physical health. These approaches include:

- Regulation and deregulation (e.g., providing zoning incentives to builders to construct low-cost housing or reducing constraints on child care providers).
- Tax policy change (e.g., providing state or local tax deductions to businesses that provide employment for the disabled or deferring taxes for elderly home owners to promote independent living).
- Administrative reform (e.g., modifying job application procedures to meet the special needs of the handicapped or using public facilities for multiple community purposes).
- Advocacy (e.g., encouraging changes in state tax policy or practices of insurance companies regarding older adults).
- Private-sector collaboration (e.g., encouraging employers to provide child care for their workers and helping target location of new plant sites to economically needy areas).
- Promotion of Self-help (e.g., organizing a home-sharing program to enable elderly individuals to reduce the costs of living independently or helping to start mutual support groups for deinstitutionalized persons).

Collectively, the use of such innovative approaches represents a new kind of public policy viewpoint. It is one that recognizes that there is more to the role of government than just spending money and that there is a considerable array of local powers (governance, as well as fiscal) and resources (private and community, as well as public) that can be creatively used to address community problems.

At a recent meeting of representatives from government, the business sector, and community organizations, sponsored by a national foundation and SRI, there was strong agreement about the value of nonservice approaches and a sense that they would become even more important in years ahead because of fiscal constraints and intergovernmental changes. There was a consensus that the 1980s will be a time of transition, as different levels of government and different sectors proceed to develop new roles, responsibilities, and relationships with other.

At the same time, concern was expressed about the very real difficulties--political and institutional--in making the transition to new kinds of approaches. Change is always hard. Thus, the true challenge over the next few years will be to determine how best to support local governments, private corporations, unions, and community groups as they attempt to develop constructive new approaches to community problems. It is hoped that this report and other nonservice SRI activities will assist local practitioners during this important transition period.

Background

During the past two decades, governments at every level have focused on the delivery of publicly financed services as an important means for assisting individuals and families in need. Traditional service approaches to the social welfare problems of vulnerable groups (the elderly, families with children, youth, and the disabled) have assisted many people.

Recently, however, the use of such approaches by themselves to solve many problems has increasingly been put into question. A number of social and economic changes--such as the increase in the number of elderly determined to maintain independent households, a steady increase in the numbers of broken homes and single-parent families, and the movement towards mainstreaming severely disabled persons whenever possible have significantly changed the nature of populations to be served.

Meanwhile, the fiscal condition of American states and local governments has impeded their ability to offer any new services to many client groups and forced cutbacks virtually "across the board" in every area of service delivery.

Economic trends have led to other problems with service solutions. In recent years, many young people have been unable to gain an initial foothold in the labor market. At the same time, sectoral unemployment has disrupted the lives of large numbers of older, established workers. Both of these groups often require new types of aid to become self-sufficient. In particular, interest has grown concerning solutions focused on linking job-seekers to private-sector jobs, as opposed to stressing publicly financed training or job provision.

Finally, many conventional service delivery approaches have been found to have serious design problems. Many programs provide inadequate coverage to potential clients; others serve persons who have no need of some services. Another design problem is related to the fact that many federal grants-in-aid programs have had guidelines that are ill suited to many of the locales where services are delivered. Finally, many publicly subsidized service delivery approaches put persons just above eligibility limits at a disadvantage in terms of access to goods and services entailed.

Given the fact that problems of the vulnerable populations, such as the aged, handicapped, and low-income populations, will remain and, in some cases, increase over the remainder of the century, it is clear that new approaches to meeting their needs must be considered and tried. In this context, this report analyzes a growing change in government response to human development problems at the local level--a change from strict reliance on traditional service delivery models (emphasizing professional service providers) to methods that seek to increase the supply of goods or services (by using the private sector, paraprofessionals, or self-help) or to prevent or remedy inequities of access to existing services. The approaches covered in this report reflect an emerging policy orientation, implicit in local social welfare strategies, that recognizes the need to strengthen informal or natural support systems, the need to accommodate changes in family structure and lifestyle, the need to reduce the negative impact of stigmatization, the need to promote deinstitutionalized care and independent living, and the need to acknowledge and build on the interdependence of public and private sector responsibility for meeting community welfare needs.

Such approaches--called "nonservice" to distinguish them from current service delivery approaches--can expand the inventory of actions that local officials can take to deal with local problems. More broadly, nonservice approaches can provide a framework for mobilizing public, private, and community resources in new ways to address social welfare problems.

Nonservice Tools

Most conventional social welfare approaches provided by the public sector fit into two categories. Some directly provide goods or services that individuals cannot provide for themselves, such as a residence (public housing), employment (income maintenance and subsidized work opportunities), or health care (Medicaid and associated public health services). Others aim at increasing the capacity of individuals to meet their own needs, by strengthening family integrity (counseling, support of efforts to find work, education, or training), or by assisting in independent living in noninstitutional settings (rehabilitation services or homemaker assistance).

Nonservice approaches offer a broader type of intervention. They are directed not just at individuals but at the market conditions (such as housing availability and employment supply and demand), the practices of public and private institutions (such as hospitals, schools, and large businesses), and the patterns of individual behavior (such as those of families, neighborhood residents, landlords, and small businesses) that constrain the ability of some people to meet their own needs.

Nonservice approaches seek to produce change by:

- Influencing markets (to increase or preserve the supply of housing, expand opportunities to develop child care, or offer alternatives that increase access and availability of food, and so on).
- Altering institutional behavior (for example, the price structure of utility rates, local government use of school facilities, the response of a company to employee alcoholism or to child care needs).
- Altering individual behavior (so that, for example, a family cares for a disabled person, a neighbor barters garden produce for laundry service, or a landlord rents to a family with children).

Nonservice approaches depend for their effect on the use of local governance powers and nongovernmental resources. Six categories of nonservice approaches are covered in the report:

- Regulation and deregulation
- Tax policy changes
- Administrative reform
- Public-private collaboration

- Promotion of self-help
- Advocacy by the public sector.

These six types of nonservice strategies do not eliminate the need for services in communities. Nor are these approaches "free." Shifting a cost to the private sector does not eliminate that cost; convincing the private sector to accept a new responsibility may be neither easy nor inexpensive; and altering the internal operations of government itself is usually not easy. But nonservice strategies can reduce public-sector costs and ensure that private-sector and community-level resources are utilized more effectively.

Nonservice strategies do not all work in the same way, nor is the same set of strategies equally effective in all local contexts. However, increasing numbers of local governments are adopting nonservice approaches developed elsewhere or developing their own strategies with the intention of making them work, often because they see no other alternatives. Development in each of the six categories that can be used to classify strategies are discussed below.

Regulation and Deregulation

Local governments make regulations with the objective of protecting public health and safety. They are increasingly recognizing, however, that regulation and deregulation also affect the provision of some goods and services essential to social welfare. The effect of overly restrictive building codes on the cost of housing is one example, as when rehabilitated dwellings must meet the code for new buildings even in ways that do not affect health or safety. As another example, the feasibility of establishing a food-buying club can be affected by local regulations governing weights and measures; if the local government requires a very expensive scale when a simpler one would do, the cost of buying that scale may discourage a voluntary group. Finally, county regulations may require that certain counseling be provided by clinical psychologists when peer counseling would have advantages for many.

Regulations that unnecessarily restrict markets can be waived, removed, or adjusted. However, in some cases, the imposition of new regulations can increase the access to essential goods and services for those formerly excluded from access. Examples include the imposition of ordinances requiring that jobs not be denied to the handicapped unless the handicap would prevent performing the job and ordinances requiring all buildings open to the public to be accessible to the handicapped.

Many specific examples of how local governments are using both regulation and deregulation more purposefully to address social welfare problems have been found. These are:

- Cambridge, Massachusetts, passed an ordinance to control the conversion of apartments to condominiums, slowing (in some cases halting) the displacement of elderly tenants and working people in an area where rental housing is scarce. Los Angeles and San Francisco also have passed ordinances to control condominium conversions.

- Portland, Oregon, passed an ordinance saying that residential-care facilities could not be excluded from single-family, residential zones, although approval by 55% of the neighbors is required (which may well result in de facto exclusion). The government set limits on the number of residential-care facilities that could be placed in any zone (the number varies by density of residences in the zone), since overloading an area with residential-care facilities often exacerbates existing problems.

- Los Angeles, California, revised both zoning and code requirements concerning child care facilities to reduce local constraints on a potentially strong child care market. The regulatory changes increased the number of children that could be cared for in personal homes. This action was independent of any state licensing requirements that may have affected child care providers. Cities, such as Seattle, have also eliminated unnecessarily restrictive zoning or code policies that prevented child care in downtown areas or in school facilities.

Regulatory changes at the state level can have even more powerful effects, such as reducing constraints on day care to enable the market to expand, making criminal justice code changes that remove young status offenders (truants and runaways) from the criminal justice system, changes in insurance regulations, utility rate regulation, nursing home regulation, kinds of mortgages permitted, kinds of paraprofessionals who may provide services, and the like. (How local governments are approaching changes in state regulation is discussed under "Advocacy by the Public Sector.")

Tax Policy Changes

Local governments generally levy taxes to collect operating revenues. However, they have long been aware of the nonrevenue effects of taxation (such as the flight to the suburbs when a city income tax is imposed or the bargaining for tax abatement that occurs when a large employer is looking for a new site). Local governments are increasingly viewing tax powers as a tool to use in addressing social welfare problems, whether it is a matter of speeding up the process of taking possession of abandoned, tax-delinquent property to prevent further destruction, considering a tax deduction for care given by a family to disabled relatives, or considering a slight reduction in property taxes for neighbors to make a residential-care facility more acceptable.

The tax powers of local government in most parts of the country are constrained by state law. Even where a local government is free to consider a particular use of tax powers, however, it often finds intense community and voter resistance. In spite of these difficulties, local governments are exploring a variety of tax policy changes and some have been implemented, including these:

- Washington, D.C., has an ordinance permitting all property owners who have maintained their residence for at least 5 years and have incomes under $20,000 to defer a portion of property taxes until the home is sold. In California, residents over 65 and having incomes under $20,000 may defer all property taxes (at 7% interest) until title is transferred.
- Pittsburgh, Pennsylvania, examines its tax delinquency cases to distinguish inability to pay on the part of low-income homeowners from tax evasion by landlords of multiple-dwelling units, the latter of whom it pursues vigorously.

Less direct tax strategies are also used to address problems that affect social welfare, including employment of local residents (particularly unemployed youth). For example, some cities now negotiate tax abatements (or the equivalent in states like Tennessee that do not allow individual abatements) for new corporate ventures that will agree to hire and train a certain percentage of their staff from within the city. The basis of the negotiation is no longer just the total number of new jobs added, it is the number closely tied to the objectives of the public body granting the abatement (e.g., more women, minorities, or youth). Retention of the tax abatement over the agreed-upon period may be linked to corporate fulfillment of its promise.

Another indirect tax strategy that can address social welfare objectives is tax abatements for new small businesses or for small businesses upgrading their properties in deteriorated neighborhoods. Social welfare benefits accrue when such small businesses are able to hire neighborhood residents who have been unemployed.

Because so few local governments levy income taxes, tax deductions for care of disabled relatives, for volunteer services, and the like are generally state and federal matters. Sales taxes are also controlled primarily by states. (Local government efforts to get changes in all of these areas are also classified under "Advocacy by the Public Sector.")

Administrative Reform

Local governments administer personnel, purchasing, and service functions as part of day-to-day business. Although using the routine administration of local government functions to ameliorate social welfare problems may seem unlikely, an increasing number of local governments are instituting measures that have exactly that effect. The effect may be direct, as when the city changes the routine procedure a police officer follows on finding small children alone at home, so that the children are no longer automatically removed to an institution before an effort is made to locate an adult relative. The effect may be indirect, such as when a local government changes its bonding requirements for contractors, increasing the likelihood that new jobs will be created in local firms.

Whether the effect is direct or indirect, it may increase the productivity of existing resources (as when local government permits an empty school to be used for a senior center rather than letting it stand idle); it may broaden the coverage of an existing service (as when student nurses provide health screening on a volunteer basis at a senior center); or it may establish new roles and relationships (as when mail carriers are made a part of the senior welfare system by being given the task of checking on whether yesterday's mail has been picked up and notifying the Department of Social Welfare if it has not).

Administrative reform measures, which do not require confirmation by voters, often seem simple. However, local governments frequently find that they are difficult to implement because they require changes in operations that may have good reasons for remaining as they are. Measures that have been implemented cover a wide range:

- In Seattle and Baltimore (among other cities), changes have been made in the way civil service tests are administered. The cities now arrange for aides to assist the disabled in taking tests (reader/markers for the blind, sign-language translators for the deaf) and hold special testing sessions in barrier-free areas for those in wheelchairs. The effect is to increase the access of the disabled to jobs they can perform.
- Many departments in local governments (Dade County, Florida, and Dallas, Texas, for example) have adopted flextime where it can be used (it is not suitable for intricately scheduled services, such as police, or team services, such as sanitation). Flextime policies may be established to cut absenteeism, reduce traffic congestion, provide a low-cost fringe benefit, or extend client service hours. However, the effect is also to make child-care arrangements easier for single-parent employees and thus to remove one source of parental stress.

Administrative reforms like these take staff time and staff capacity, and they require steady, high-level support. The conversion of empty schools, for example, may involve intricate negotiations between the school board, city government, and community groups seeking to make use of the idle school capacity. In Boston, the city uses discretionary funds for school repair or construction as an incentive to the school board to agree to the use of vacant schools; in New York, the school as a whole is closed and then turned over to a special commission that negotiates reuse; in San Diego, some uses have been negotiated relatively easily, such as the use of the school district kitchens to prepare meals for the aged. However, in one midwestern city, it took 18 months to negotiate the transfer of an empty school to a group seeking to open a nonprofit clinic for the elderly. The process took that long because no staff person was available to work on the transfer full time.

At the same time, administrative reforms (such as considering the elderly as capable of employment and capable of providing some services, whether as paraprofessionals or volunteers) can provide ways of assisting a growing elderly population within a shrinking budget (in real dollars). Similarly, administrative reforms that enable self-help or facilitate collaborative actions by the private sector (such as stationing hospital medical staff in public housing or senior centers) can reduce needs for foster-home or institutional placement and effectively enlarge the options available for serving clients (particularly where the need is temporary).

Collaboration with the Private Sector

This nonservice category includes collaboration with the corporate sector, collaboration with small business and merchant associations, and collaboration with nonprofit (religious, charitable, and service) organizations.

Collaboration with the corporate sector may be direct or indirect. Direct collaboration might include arranging the loan of the services of a corporate auditor to help a human services department improve its reimbursement system or arranging an agreement to allow a corporate cafeteria to be used to prepare and serve evening meals for seniors.

Indirect collaboration might include persuading a corporation to provide day care for the children of employees or to broaden the corporate alcoholism-treatment program to include spouses.

Collaboration with the small business sector might include working with the local merchant association to get discounts for senior citizens.

Collaboration with the nonprofit sector has a long history in some fields of effort, such as the care and placement of orphaned children; but it is only beginning in other areas, such as private and public social service agencies combining resources (like transportation), sharing a single multipurpose service center, or strengthening homemaker assistance or day care by providing additional help in finding natural supports or training in self-help efforts.

Examples of collaboration with the private sector include the following:

- In Phoenix, the banks have designed and teach a course in banking practices for nigh school students. Those who participate in the course have a chance at entry-level teller jobs when they graduate. (San Diego has replicated the program.) This measure addresses problems related to the difficulty that youths experience in making the transition from school to work by facilitating entry into a work setting.
- In Baltimore, private utilities help underwrite emergency fuel costs for the poor through a nonprofit fuel fund, the creation of which was assisted by local government.

Promotion of Self-Help

Promoting self-help should in no way imply dismantling existing service delivery systems or leaving the needy or vulnerable to shift for themselves. However, increasing emphasis is being placed on the promotion of self-help as a response to the emerging recognition of the importance of independent living and natural support mechanisms for all populations. Such efforts recognize that not every person needs the same amount or kind of service. In the human services field, (as in other fields), local government efforts often follow rather than lead community actions. Local governments can, however, legitimately promote self-help by:

- Removing legal, regulatory, or procedural obstacles to self-help (for example, by waiving occupancy code limits so that unrelated elderly can share housing).
- Providing support for self-help efforts (for example, by having emergency respite care arrangements for disabled family members being cared for at home).
- Devising ways by which people can bypass conventional private-sector systems that do not serve their needs (for example, sweat-equity housing, community credit unions, food-buying clubs, special employment agencies for the elderly).
- Devising ways in which the community can provide substitutes for missing portions of natural supports (for example, friendly visitor networks, peer counseling, job clubs).

These measures do not supplant any existing service delivery system or deprive anyone of access to needed services. Instead, they broaden the range of options and remedies available.

Examples of local government efforts to promote self-help include these:

- Seattle has established a homesharing program in which homeowners needing some services or some financial help are matched with compatible persons needing housing and able either to pay rent (though not market rents) or to perform services. The cost, about $284 per match, indicates the time put into assuring a compatible match and follow-up visits. However, the result is placement in unsubsidized housing and, often, the provision of services (at no further cost to the city) that can make institutionalization or publicly paid home care unnecessary. Santa Clara County, California, had a similar program now run by a nonprofit group (Project Match). Although the Seattle program uses Community Development Block Grant (CDBG) funds, the program could be run by volunteers or by existing agencies.
- In Bismarck, North Dakota, there is no shelter for battered women; 20 families volunteer their homes as "safe houses" when needed. New volunteers are recruited as the addresses of current homes become known.

Other examples of self-help in the human services area include such well-known programs as Alcoholics Anonymous (and Alateen), Parents Without

Partners, and the various types of peer-support groups that have developed around other problems, such as the difficulties of raising an autistic child.

Advocacy by the Public Sector

An important way in which local government can help vulnerable groups is by lobbying at other levels of government for changes that can help them. Such advocacy can range from informal administrative lobbying to suing on behalf of groups with special needs (although such suits are rare).

The kinds of changes local governments might seek from other local governments or special districts could include free access to public recreation facilities in the suburbs for inner-city youth and families (since suburban commuters often use inner-city services and public facilities without paying for them) or changes in transit district bus routes so that inner-city residents could have access to suburban job opportunities. The kinds of changes local government often seek at the state level include the passage of state "Good Samaritan" laws to protect those who donate goods or services, changes in the state criminal code to remove status offender youths (truants or runaways) from the criminal justice system, or waivers from the state welfare system so that those released from mental hospitals can receive cash assistance from the date of release.

Local government public advocacy can be focused on legal, regulatory, or procedural obstacles to the implementation of nonservice strategies, such as laws that prevent the elderly from access to reverse annuity mortgages, or that prevent cities from giving tax deductions. Other efforts may aim at deregulating markets through altering state professional licensing requirements to permit paraprofessionals to perform services or at the enforcement of federal laws, such as the Hill-Burton Act, to require hospitals to serve the poor.

Examples of public advocacy efforts carried out by local governments include the following:

- In Seattle and King County, Washington, an effort was made to lobby the Washington state insurance regulators to get a change in insurance provisions that would permit for-pay carpooling or van service for the elderly living in rural portions of urban counties without incurring the kinds of insurance liabilities that would attach to a fully commercial service.
- In Boston, the Mayor initiated an advocacy effort in support of community-wide concern about the property tax structure. The mayor mobilized local government staff, as well as university analytic support, to make an effective state-wide campaign to introduce a tax classification system. The result of the campaign was revision of the state tax law to permit a more equitable differential tax approach.

Some measures may be too controversial for the local government to be able to advocate directly or litigation against the state may be seen as an inappropriate activity for the local government. Even in such cases, however, the local government may, if appropriate, find ways to offer support to a community organization that has taken up the advocacy banner, perhaps by providing technical assistance, such as the loan of legal counsel.

Using Nonservice Approaches to Address Particular Social Welfare Problems

Particular areas of need in which cities and counties are experiencing growth in demands and for which nonservice approaches might help might include:

- Increasing employment opportunity (particularly for excluded groups not served by traditional systems, such as those over 65).
- Meeting shelter needs (where the existing systems are inadequate for the numbers needing shelter because of family breakup, condominium conversion, and other causes).
- Reducing consumer costs (a new area for attention by local government).
- Promoting mental health and ensuring physical health care (both areas where changes in federal mandates and programs have altered

the demands for service, as well as the traditional local system for providing service).

An overview of findings in each of these areas is provided below.Greater detail is provided in a forthcoming SRI document entitled Rediscovering Governance: Using Nonservice Appraches to Address Local Social Welfare Problems--A Guide for Local Officials. Specific examples of nonservice approaches in each problem area are included in the Appendices.

Increasing Employment Opportunity

As social welfare agencies find that the problems they face cannot be addressed through services alone, finding employment for those in need becomes increasingly important. However, assuring employment for vulnerable populations as a fundamental means of addressing welfare problems requires the services of new roles on the part of the human services agencies in the welfare system. Human development agencies normally focus on preparing people for work; using nonservice approaches, administrators can begin expanding work opportunities. Mobilizing the resources of other parts of local government has now become essential to employment development strategies. Such strategies may also involve examining the role of external actors (such as the private sector) or ways of strengthening the self-help capacity of the community.

Although the major focus of nonservice approaches is on altering such institutional constraints as mandatory retirement policies or inflexible job application procedures, policy tools are also being used to help stimulate the job market directly through economic development strategies.

For each population group, human service agencies are, by themselves or in collaboration with other local agencies, using nonservice approaches to help shape demand for employment or to supply qualified labor through institutional change and stimulation of economic development. In some cases, these alternative approaches promote skills development through private-sector or self-help efforts. In other instances, the private sector is encouraged or assisted in creating employment opportunities through economic development.

Unlike service strategies, which human service agencies promote directly, most nonservice approaches that create employment opportunities involve action by other organizations. Regulatory changes must be adopted by city councils or county boards, although human service agencies can promote such changes. Administrative reforms (such as revising job classifications) can be adopted by human service agencies directly, but may need to be adopted more broadly to have a real impact. Human service agencies can advocate for many of these changes.

Meeting Shelter Needs

Nonservice approaches involve a new, more strategic viewpoint concerning the role of local governments in meeting the shelter needs of special population groups. This shifting policy perspective suggests a move away from a narrow focus on traditional public-service delivery roles to a new local role that involves the creative use of local governance powers to mobilize the public, private, and community sectors to address the shelter needs of vulnerable groups.

Many of the most promising new policy approaches represent a more effective use of traditional governance powers (regulation, taxation, administration) and resources (finances, buildings, land) in new ways that help meet the shelter needs of vulnerable groups. Local regulatory powers are being used to protect vulnerable groups from the excesses of strong housing markets, to alleviate public-sector burdens on homeowners and builders, and to open up more of the private housing market to individuals.

Another set of policy approaches represents efforts to provide incentives for, or remove disincentives to, increased private-sector involvement in meeting the shelter needs of vulnerable groups. Policies are being revised to provide public incentives to developers. Barriers to housing development are being removed. Collaborative approaches are being adopted to stimulate greater financial investments in affordable and appropriate housing units. Stronger corporate roles in housing and reforms within the real estate industry are being advocated increasingly by local government leaders. Finally, other nonservice approaches involve ways to encourage and facilitate the self-help efforts of individuals and community organizations to meet the specialized shelter needs of vulnerable groups.

Community resources are being used in many new ways to facilitate the operation of special living arrangements (using volunteers to perform custodianship roles or to supplement or replace homemaker assistance). Self-help groups are also providing a central core of support for transitional living groups.

In sum, local governments are altering their traditional roles in housing and are increasingly discovering new ways that public, private, and community resources at the local level can be mobilized to meet the specialized shelter needs of the aged, families with children, troubled youth, and the disabled. In effect, this is a "new way of doing business" for local government in the housing area, moving from its traditional service delivery role to become a mobilizer of local housing resources.

Human services staff need not become housing planners to play such roles; however, they do need to understand the workings of the housing "system" in their community, the key public- and private-sector actors that work within that system, and the full range of steps that local government can take to help make the housing system work better in meeting the needs of vulnerable population groups. Most nonservice approaches to shelter needs involve actions by organizations other than human services agencies. Therefore, once a shelter need for a client group is identified, human services staff will have to determine which strategy (service or nonservice, public, private, or community) is most appropriate for meeting that need. When that is done, human services staff will then recognize whether their most effective role is that of service provider, collaborator (with other actors and sectors), or advocate of needed reform (by government itself or by other actors in the housing system). Given the current crisis in many local housing markets and the increasing local pressures to focus on the housing problems of middle-income households, human services staffs may find it more important than ever to engage in collaboration and advocacy strategies for their special client groups.

Reducing Consumer Costs

Nonservice approaches to consumer cost issues encompasses a change in the view of local government toward the needs of constituents. The change in viewpoint entails a move beyond the traditional approaches to food, energy, day care, or transportation problems, in which the range of responses is determined by the availability of service delivery, such as food stamps, senior nutrition projects or commodities, emergency energy assistance, Title XX day-care slots, and limited paratransit services. This changing perspective involves local officials in examining problems in terms of how the existing "system" of markets and institutions concerned with food, energy, day care, or transportation works or does not work for the population in question. This redefined role provides an opportunity to use local governance powers to respond to problems in ways that can reduce costs beyond existing programs by mobilizing alternatives within the public, private, and community sector.

Nonservice approaches to reducing consumer costs to vulnerable populations may often involve the purposeful use of traditional governance tools, such as regulation and deregulation or administrative reform. These tools are used in ways that can reduce constraints on alternative food market approaches and assist them in development. Examples of this would include activities such as food salvaging and banking, protecting the very poor from utility shut-offs, enabling the day-care market to respond to increased demand (through less restrictive building codes and zoning), and encouraging alternative transit modes (taxi jitneys).

The private-sector role in reducing consumer costs is growing in importance as new forms of collaboration emerge in response to special problems. Businesses are an essential part of food salvaging and banking efforts, both in providing foods and in assisting with storage and distribution. Businesses are also working with local governments and community groups on energy issues, such as organizing emergency fuel funds for the poor or assisting in developing alternative fuels and carrying out weatherization efforts. Similar roles apply to child care, where the productive value of corporate and union support is growing in recognition, and in transportation, where lending of vehicles for paratransit efforts and flexible scheduling for single parents are part of changing business response.

Many initiatives in reducing consumer costs derive from community actions. Such efforts may involve local government as a partner in making market alternatives feasible. Creating new day-care homes for use by low-income parents can be enabled both by efforts of community organizations and by support of local government for reducing constraints, such as zoning or health and safety codes. Food-banking efforts are involving increasing numbers of individual organizations. Local governments are, in some cases, helping organize and manage resources and territories of these groups. The strength of emerging self-help activities is their basis in local understanding of problems and resources. Local government, however, can both help define activities and/or facilitate new types of action.

Human services staff do not have to be economists to lower consumer costs directly or indirectly; however, local context determines which solutions are likely to work. Local staff need to understand what forces influence problems in different settings in order to form workable responses. Nonservice measures in the consumer cost area also often require staff time and training that income transfers do not demand. For example, development of food co-ops requires organizational skills that need to be taught; organizing a volunteer system to provide transportation to the elderly usually takes some study of insurance rates and alternatives.

Promoting Mental Health

Many forces are influencing the redefinition of mental health problems and how care is provided. Shifts in social structure and the economy have resulted in new emphasis on family- and employment-related stress. Fiscal problems, new understandings of mental disorder, and patient-rights advocacy have created a demand for deinstitutionalized care and transitional supports that emphasize shelter and employment. Increased understanding of problems of the aging and concern with maintaining independent living have also created needs for supportive resources in a period when their funding is constrained. These pressures have motivated the use of new public, private, and community resources.

The public sector is redefining and expanding its role by focusing existing service provider actions in new ways. Public resources are being used more productively through facilitative actions by public mental health organizations and nonprofit self-help organizations (loaning space and encouraging self-help efforts) and through changes in the institutional practices of public agencies (changing the role of police in mental health issues).

The private sector is mobilizing its resources to address productivity problems and job satisfaction of employees and the health of union members through direct and reimbursed mental health care. The private sector is reaching out to public institutions (hospitals and mental health centers), as well as to the nonprofit sector (health promotion groups), to expand the network of resources available to employees and their families. Private firms are also providing more transitional employment opportunities for the formerly institutionalized patient to aid integration into the community.

Nongovernmental, nonbusiness, and community resources are being brought into play in many new ways, through facilitation by public mental health organizations and nonprofit, self-help organizations and through changes in institutional practices of public agencies (using volunteers to perform custodianship roles or supplement or replace homemaker assistance).

Self-help groups are also providing a central core of support for transitional living groups for the deinstitutionalized.

In sum, through direct and indirect mobilization of public, private, and community resources, mental health problems are being defined and addressed in new ways that emphasize the increased productivity of existing public resources, the shift of responsibilities for care to the nongovernmental sector, and the reduction of needs for future services.

Ensuring Physical Health Care

Local governments are attempting to influence the form and availability of medical care in markets that seem to be determined by four factors: federal health programs, local health budgets, private insurance, and independent institutional providers and private physicians. To address health problems that confront such groups as the aged and low- and moderate-income families, local governments are beginning to relate to health care problems and resources in new ways.

Local governments are using their regulatory, administrative, and advocacy roles to ensure that health care institutions (like nursing homes) comply with basic standards, and meet the care needs of clients. They are also using their governance roles to mobilize voluntary health care resources in the community to respond to health care needs (podiatry, hearing, vision) not covered under traditional programs.

To increase access to health care in a period of budget cuts, local government has used administrative reforms to harness the capacity of the existing health care market. This is done by identifying health care providers who will accept Medicare or Medicaid and, in some cases, redefining the local role or resources to enable enrolling the aged or poor in private health care plans (HMOs).

At the same time, the private sector is expanding its role in meeting health care needs. Businesses are providing health care on site, and increasingly are emphasizing health promotion (preventive medicine). Insurance firms are also providing incentives for health promotion to firms. Unions and businesses, in many cases, are extending this role to families of employees.

Beyond the public sector's efforts to direct health care providers and the private sector's actions on health is the self-help health capacity of the community. Although not as visible as traditional forms of care, health maintenance groups organized by participants have been operating for many years and are increasing in prevalence. These groups help reduce unneeded health care by focusing on the manageable aspects of chronic problems and special needs that might require pooling of resources.

In sum, nonservice approaches to health care involve a broad array of public actions, changes in the health care market by business and nontraditional providers, and the self-help capacity of the community. Recent trends show that local action on human services health issues can exert more influence than previously thought. This requires new views of the local government role and its relation to the health care market.

The Role of Governance

The nonservice strategies described above allow local governments to address social welfare problems by changing local policies and mobilizing nongovernmental resources. They do not replace existing service programs, although they may make some expansion less necessary by providing ways to broaden social welfare coverage without increasing social welfare service delivery.

These approaches are important because the context in which cities and counties carry out their governmental responsibilities is changing. Several interrelated trends characterize new directions that local governments are beginning to take in order to remain able to meet their citizens' needs. First and most obviously, local governments are becoming increasingly concerned with maximizing efficiency through improving management and streamlining service systems. Such actions are worthwhile but can save only a limited amount of money over time.

Second, new ways of leveraging existing public resources are being explored. Frequently, the enterprises of government and service provision are narrowly defined, precluding creative or productive use of resources. Now, cities and counties, often in collaboration with special districts, are having to amplify the utility of public facilities, buses, and other equipment, as well as the roles that traditional professional or civil service employees play in the community.

Third, local governments are beginning to alter their delivery systems to use existing resources in new ways. They are seeking to make more and better use of both residents and the private sector in responding to public needs.

Finally, cities and counties increasingly are having to consider almost completely devolving certain responsibilities back to citizens. Citizens may have to provide certain services for themselves, such as neighborhood recreation or support of frail community members.

In this context, research findings documenting the emerging trend toward the use of nonservice approaches reflect a growing recognition of the fact that the local policy process can be an effective instrument for reaching out to all segments of the community for assistance in meeting social policy objectives.

APPENDICES - TABLES OF NONSERVICE EXAMPLES

Table 1

INCREASING EMPLOYMENT OPPORTUNITIES

A. Increasing Employment Opportunities for the Aged

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Antidiscrimination ordinance	Regulation	City council, county board	Increase private-sector employment opportunities for the elderly	Dade County, FL (County Commission); Chicago, IL (City Council); Boston, MA (City Council); Cleveland, OH (City Council)
Abolish mandatory retirement age	Regulation	City council referendum	Allow elderly to work longer	Los Angeles, CA (referendum)
Increased use of volunteers	Administrative reform	Public agencies	Provide opportunities for elderly to contribute in public service capacities	Baltimore, MD (Mayor's Office; San Diego, CA (Department of Human Resources); Dade, County, FL (Department of Human Resources)
Private-sector hiring under alternative work options	Collaboration with private sector	Private firms	Open up employment opportunities for the elderly	Northrup; Tektronix; Union Carbide; Continental Illinois Bank and Trust; R. H. Macy (New York); Polaroid; many others
Marketing older worker's skills	Self-help	Voluntary organizations	Make known available elderly skills through voluntary action	Chicago, IL (ABLE); Los Angeles, CA (Second Careers)

B. Increasing Employment Opportunities for Families with Children

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Affirmative action ordinance	Regulation	City council, county board	Increase private-sector employment opportunities for minorities and women	Boston, MA (City Council); Chicago, IL (City Council);
Hiring plans	Regulation	City council private firms	Increase employment opportunities for minorities and women	Boston, MA (City Council)
Flextime	Administrative reform	Public agencies	Accommodate special needs of single parents and working mothers	Dade County, FL (county government-wide); Maricopa, County, AZ (county government-wide
Targeted city procurements	Administrative reform	City council procurement office	Reward firms that hire minorities and women	Dade County, FL, Chicago, IL
Locating plans in inner cities	Collaboration with private sector	Private firms	Increase employment opportunities for minorities and women	Control Data Corporation
Peer assistance	Self-help	Mutual support groups	Help build self-confidence and job readiness	Seattle, WA (Departmentof Human Resources) Detroit, MI (United Way); Wayne County, MI Downriver Community Conference

Table 1 (concluded)

INCREASING EMPLOYMENT OPPORTUNITIES

C. Increasing Employment Opportunities for Youth

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Apprenticeship programs	Administrative reform	Public agencies, private firms	Provide work experience for youth in public and private sectors	Baltimore, MD (Mayor's Office); Phoenix, AZ (Public Works Department)
Occupational training by private firms	Collaboration with private sector	Private firms	Provide on-site skills training for youth in the private sector	Chicago, IL, (Chicago United); Phoenix, AZ; Cleveland, OH; Hartford, CT (insurance companies)
Peer counseling	Self-help	Mutual support groups	Help youth develop knowledge of jobs	Baltimore, MD (Public Schools); Santa Clara, County, CA (Human Services Council)

D. Increasing Employment Opportunities for the Disabled

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Antidiscrimination ordinance	Regulation	City council, county board	Open job opportunities for the disabled in the private sector	Dade County, FL; Boston, MA; Chicago, IL
Modify job application procedures	Administrative reform	Public agencies	Accommodate special needs of the disabled	Baltimore, MD, (Civil Service); Dade, County, FL (Court and Personnel Deptartment); Seattle, WA (Civil Service)
Sheltered workshop	Self-help	Voluntary self-help organizations	Provide a supportive environment for the disabled	New York, NY (Fountain House); Washington, D.C. (The Green Door); Fairfax County, VA (The Social Center); many others

Table 2

MEETING SHELTER NEEDS

A. Meeting Shelter Needs of the Aged

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Tax freeze	Tax policy change	State legislature, city council	Relieve elderly of increased property tax burdens after age 65	States of Connecticut, Minnesota
Property tax deferral	Tax policy change	State legislature, city council	Defer tax payments until time of sale when more resources are available	Washington, D.C. (Department of Finance and Revenue); five states
Homestead exemption	Tax policy change	State legislature, city council	Relieve elderly of some tax burden by reducing assessments	Cleveland, OH (Department of Finance); 40 other states
Circuit breaker tax	Tax policy change	State legislature, city council	Relieve elderly of some tax burden by reducing payments according to income	25 states
Downzoning	Regulation	City council, county board	Alleviate excessive market pressures on residential areas, which raises property values and tax assessments	San Francisco, CA (Planning Commission); Denver, CO (Planning Commission); Seattle, WA (Planning Commission)
Lobbying for state enabling legislation	Public	City agencies, elected officials	Increase local government's capacity to provide tax relief to the elderly	Baltimore, MD (Commission on Aging)
Antispeculation tax	Tax policy change	City council, county board	Discourage speculation, which raises property value and assessments	Washington, D.C. (Department of Finance and Revenue)
Differential code enforcement	Regulation	Building department	Facilitate rehabilitation by requiring only priority code repairs	Philadelphia, PA (Neighborhood Housing Services); Dayton, OH (Building Department); Chicago, IL (Building Department)
Volunteers for rehabilitation	Promotion of self-help	Community organizations	Assist the elderly in maintaining and repairing their homes	Milwaukee, WI (Community Liaison Coordinator)
Reverse annuity mortgage	Collaboration with private sector	Banks	Provide elderly homeowners with a means of liquefying their equity in their homes	Cleveland, OH (Broadview Savings and Loan); Portland, ME (Deering Savings Savings and Loan); San Francisco, CA (S. F. Development Fund)
Reuse of school buildings	Administrative reform	School districts, housing authority	Expand the supply of senior citizen's housing units	Columbus, OH (Housing Authority); Atlanta, GA, (Housing Authority)
Use of surplus public land	Administrative reform	City council, county board	Provide low-cost land to help expand available housing supply	King Co., WA (Housing Authority)
Private investment in senior housing	Collaboration with private sector	Corporations, unions	Expand the supply of available senior housing	Hartford, CT (insurance industry); San Francisco, CA (longshoreman's union) Denver, CO (Council of Churches)
Renter's tax credits	Tax policy change	State legislature, city council	Reduce the cost of renting for elderly tenants	State of Maryland
Zoning and code variances	Regulation	Zoning board, planning commission	Allow more supportive living arrangements, such as mother-in-law apartments and granny flats	Seattle, WA, (Planning Department); Los Angeles, CA, (Planning Department)
House sharing	Promotion of self-help	Housing department	Enable two or more individuals to share costs and burdens of a house	Nassau Co., NY (Project Share); Santa Clara, Co., CA (Project Mates); Seattle, WA (Homesharing for Seniors); Los Angeles, CA, (Housing Alternatives)
Group living	Promotion of self-help	Nonprofit organizations	Enable groups of elderly to come together to share costs and burdens; provide companionship	Chicago, IL (Weinfeld Residence); Boston, MA (Back Bay Aging Concerns Home); many others

Table 2 (continued)

SHELTER NEEDS

B. Meeting Shelter Needs of Families with Children

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Inclusionary zoning	Regulation	City council, county board	Increase private-sector contributions to affordable housing stock by giving zoning incentives to developers	Arlington Co., VA (Planning Commission); Fairfax Co., VA (Planning Commission); Montgomery Co., MD (Planning Commission); Los Angeles, CA (Planning Commission)
Tax abatement	Tax policy change	State legislature, city council	Increase private-sector contributions to affordable housing stock by giving zoning incentives to developers	St. Louis, MO (Finance Department); Kansas City, MO (Finance Department); Boston, MA (Finance Department);
Private investment	Collaboration with private sector	Corporations, unions	Increase the supply and quality of affordable family housing	Baltimore, MD, (Control Data Corporation); Flint, MI, (General Motors); Hartford, CT, (Public Employees Union); San Diego, CA, (Building Trades Union)
Lawsuit against suburban jurisdictions	Advocacy	Elected officials, city agencies	Open up suburban housing markets for family housing opportunities	Hartford, CT, (City Council)
Eviction controls	Regulation	City council, county board	Protect households against unwarranted evictions by private landlords	Washington, D.C., (City Attorney)
Condominium conversion controls	Regulation	City Council, county board	Protect the rights of tenants in converted buildings and facilitate their transition to homeownership or other rental units	Washington, D.C., (Department of Housing and Community Development); San Francisco, CA, (Planning Department)
Institutional master plan	Regulation	City council, county board	Enable residents to negotiate with major institutions about expansion into surrounding neighborhoods	San Francisco, CA (Planning Department)
Antidiscrimination ordinance	Regulation	City council, county board	Open up additional private-market housing opportunities for families with children	San Francisco, CA (District Attorney's Office); Santa Clara County, CA (District Attorney's Office)
Collaboration with lenders and neighborhood residents	Collaboration with private sector	Banks, community organizations	Facilitate housing rehabilitation through new lending arrangements, high-risk loan funds, code enforcement	Pittsburgh, PA (Neighborhood Housing Services); Philadelphia, PA (Phil Mortgage Plan); Chicago, IL (South Shore National Bank)
Regulation of lending institutions	Regulation	City council, county board	Encourage lending institutions to meet the credit needs of low-income families	Cleveland, OH (Department of Finance)
Real estate industry reforms	Collaboration with private sector	Banks, realtors	Open up improved credit and housing opportunities for low-income families through revision of discriminatory practices	Seattle, WA (Residential Review Board)
Maintenance sharing	Promotion of self-help	Individuals	Help families to maintain and repair housing through bartering of skills and services	Seattle, WA (Department of Housing and Community Development); New Haven, CT (Home Maintenance Corporation, Tool Library)
Tax-exempt revenue bonds for housing	Tax policy change	City council, county board	Assist families to become homeowners in the private housing market	Mongtomery County, MD (Housing Opportunities Commission)
Property foreclosure and disposition reforms	Administrative reform	City council, county board	Assist families to gain control of abandoned residential properties	New York, NY (West Harlem Community Organization)
Tenant management	Promotion of self-help	Tenant groups	Afford family tenants a means of gaining more control over their housing	New York, NY (Northwest Bronx Community Coalition)
Tenant ownership	Promotion of self-help	Tenant agency	Enable families to acquire their rental unit and share in the benefits of homeownership	Baltimore, MD (St. Ambrose Housing Center); Montgomery County, MD (Housing Opportunities Commission)
Homesteading	Promotion of self-help	Housing agency	Provide families with a means of converting abandoned properties into homeownership opportunities	Oakland, CA (Oakland Community Organization); Baltimore, MD (Housing and Community Development Department)
Tenant equity	Promotion of self-help	Housing agency	Provide families with a means of reducing their housing costs through use of their own labor	New York, NY (Interfaith Adopt-a-Building); Cambridge, MA (Housing Department)

Table 2 (concluded)

SHELTER NEEDS

C. Meeting Shelter Needs of Youth

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Tax incentives for home care	Tax policy change	City council	Reward households for housing and caring for youth	New York, NY (Mayor's Task Force); New Jersey (Human Services Department)
Group home ordinances	Regulation	City council	Facilitate placement of group homes in residential areas	Phoenix, AZ (Planning Commission); San Diego County, CA (Planning Commission); Washington, D.C. (Planning Commission)
Property foreclosure and disposition reforms	Administrative reform	City council, Real Estate Department	Facilitate reuse of abandoned buildings	New York, NY (Planning Department)
Private support for group homes	Collaboration with private sector	Corporations	Increase availability of noninstitutional housing alternatives for troubled youth	Maricopa County, AZ (Businesswoman's Club)

D. Meeting Shelter Needs of the Disabled

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Tax relief	Tax policy change	City council, county board	Relieve the disabled or households that care for the disabled of some property tax burdens	Numerous states
Advocacy on federal policy	Public advocacy	Mayor's Office	Increase the viability of single-room occupant hotels as a housing resource by making them eligible for federal housing subsidies	Seattle, WA (Mayor's office)
Group home zoning	Regulation	City council, county board	Facilitate the placement of group homes in residential areas by reducing concentration and dealing with community opposition	Westchester County, NY (Department of Community Mental Health); Columbus, OH (Planning Department)
Private investment in housing for disabled	Collaboration with private sector	Corporations, unions	Expand the supply of available, noninstitutional housing opportunities for the disabled	Minneapolis, MN (Honeywell and Control Data Corporation)
Shared housing	Promotion of self-help	Nonprofit organizations	Facilitate the transition from institutional to noninstitutional housing by sharing housing	New York, NY (Fountain House)
Foster homes	Promotion of self-help	Individual families	Enable disabled individuals to find needed support in the homes of individual families	Phoenix, AZ (Adult Foster Homes Registry)
New building codes for the handicapped	Regulation	City council, county board	Increase access to public and private housing opportunities for physically disabled	Prince Georges County, MD (Building Department); Seattle, WA (Building Department); San Antonio, TX (Handicapped Areas Office)
Antidiscrimination ordinances	Regulation	City council, county board	Prevent landlords from refusing suitable housing solely because person is disabled	Chicago, IL (City Attorney's Office); Seattle, WA (City Attorney's Office)

Table 3

REDUCING CONSUMER COSTS

A. Food Costs

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction
Food salvage	Promotion of self-help	Voluntary agency, farmers, manufacturers, distributors	Provide food excluded from commercial market system to feeding programs and (in some states) individuals at no cost	Phoenix, AZ (private sector)
Food exchanges	Promotion of self-help	Volunteers, participants	Mobilize individual's gardening, canning, and baking skills so that individuals can barter and supplement diet	Fallbrook, CA; San Diego County, CA (AAA)
Senior Gleaners	Promotion of self-help	Volunteers, commercial growers	Provide volunteer labor to glean produce left in fields and groves by commercial pickers and volunteer labor used to distribute gleaned food to elderly	Fallbrook, CA (Senior Council); San Diego County, CA (AAA)
Emergency food boxes	Promotion of self-help	Voluntary agency with food bank	Provide food boxes using salvaged food (in states with Good Samaritan laws) at no cost to recipient	Phoenix, AZ (private sector)
Food-buying club	Promotion of self-help	Participants	Obtain food at lower cost through economies of scale and volunteer labor	San Diego County, CA (AAA)
Farmers market	Collaboration with private sector	Growers, city government	Make fresh produce available at 20-25% less cost by avoiding wholesalers and stores	Hartford, CT (Community Renewal Team)
Community gardens	Collaboration with private sector	Participants, city government	Use gardening skills and own labor to produce food	Houston, TX (AAA); Hartford, CT (Community Renewal Team); Seattle, WA; others
Restaurant discount	Collaboration with private sector	Local government, AAA, local businesses	Discount food for elderly willing to eat early or preferring smaller portions	Nassau County, NY (AAA); many others
Communal kitchens	Regulation	City council, social services department, landlords of residential hotels	Enable elderly to provide own food at less cost in a communal kitchen on their floor of a residential hotel	New York, NY (City Department of Social Services)

B Heating and Utility Costs

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction
Utility lifeline rate	Regulatory change by state, local public advocacy	Public utility commission, advocacy groups, companies	Pass some costs of utilities to larger industrial customers rather than lower-income groups	San Francisco, CA (Citizen Action League)
Fuel fund	Collaboration with private sector	Social service agencies, contributors to fund	Encourage corporate and private philanthropy to provide funds to pay half of coal, fuel oil, or natural gas bill of agency clients in arrears or who cannot pay for fuel	Baltimore, MD (Department of Human Services)
Community woodpile	Collaboration with private sector	City/county park department, corporate owners	Arrange for trees and limbs cut or trimmed or other wood with no commercial market to be distributed to needy for fuel at no cost to them	Hayden Lake, UT (AAA)
Volunteer weatherization projects using building trades students	Collaboration with private sector	School building trades teachers, donors of materials	Allow rudimentary skills of students under supervision of building trades teachers to make home repairs that can cut heat loss for elderly homeowners and tenants whose landlords agree	Victoria, TX (school district and AAA)

Table 3 (Concluded)

C. Transportation Costs

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Volunteer chauffeur program	Promotion of self-help	Church congregation, local mutual assistance group	Provide rides as needed at little or no cost to passenger	Many (e.g., Vietnamese Buddhist congregations, Quakers, Congregationalists, Catholics)
Employer vanpools	Collaboration with private sector	Corporations, some local governments	Provide economies of scale in driving and advantages to employer of less absenteeism; van pool allows employees to commute to work at far lower cost than individual auto	Palo Alto, CA (City Planner's Office)
Coordinated and integrated public agency and voluntary agency transport	Collaboration with private sector	Local human services department, other public and voluntary agencies	Cut cost of transport by reducing empty space in vehicles carrying agency clients	Maricopa County, AZ (Department of Human Services)
Authorization of jitney service	Regulation	City council	Supplement public buses on runs or routes poorly served at present (possible because many are willing to accept less income to be self-employed)	San Francisco, CA (Board of Supervisors); various others
Changes in state insurance law to permit long-distance car-pools, rates for elderly based on driving record and not on age	Public advocacy	City attorney, state government, insurance companies	Enable fit elderly to meet own transportation needs and those of neighbors	King Co., WA (Department of Human Services); AAAs; others
D. Child Care Costs				
Zoning changes to permit child care in residential areas	Regulation	City council, planning commission, child care provider	Allow use of suitable existing facilities (school rooms); increase supply of child care with less travel time	Seattle, WA (Office of Policy and Evaluation, city council)
Change in school use to permit child care in school space not needed for instruction	Regulation	School board, child care provider	Use currently unproductive school space (already designed for use by children) to provide child care without heavy capital investment, hence at lower cost	Seattle, WA (Board of Education)
Waivers of some child care space and facility requirements not related to safety to permit downtown child care	Regulation	City council, human services department, child care provider	Save travel cost for parents of preschool children by use of adaptable facilities near the workplace (if regulatory barriers not related to safety can be waived)	Seattle, WA (Department of Human Resources, city council); Plymouth, MA (Congregational Church)
Reduction in certification requirements for child care providers, so that a degree in early childhood education is no longer required	Regulatory change by state, local public advocacy	Appropriate local officials	Provide child care at lower cost by using skills of competent but not certified mothers and grandmothers; increase the potential supply of family day care	Dade County Department of Human Services, Chicago Department of Human Services
Flextime	Local government administrative reform/private sector self-help	Public or private employer	Reduce absenteeism--ability to make alternative arrangements if child is sick or provider has emergency (helps parent and employer)	Phoenix, AZ (several offices); King County, WA (Department of Human Services)
Employer provision of child care (subsidy or on-site care)	Promotion of self-help	Employer, department that licenses child-care providers	Provide for corporate cost benefits from lower absenteeism, reduced employee turnover; parental benefits from stability of child care and job stability (useful primarily for those with preschool children)	St. Paul, MI (Control Data Corporation--also in other cities)

Table 4

PROMOTING MENTAL HEALTH

A. Helping People Help Themselves

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Facilitation of self-help groups	Promotion of self-help	Community mental health centers	Organize and facilitate self-help groups on substance abuse, health promotion, spouse and child abuse, retardation, retirement, widowhood	46 states, 2,376 groups
Community or nonprofit self-help groups on women's problems	Promotion of self-help	YWC(H)As, nonprofit community groups, senior centers	Develop self-help and mutual support groups to address divorce, widowhood, spouse abuse, parenting, coping skills	In most communities--examples: Central Vermont Women's Mental Health Center; Menomonie, WI (Women to Women); Turner Falls, MA (Widow to Widow)
Matching parent-aides with abusive parents referred by court/ social services department	Promotion of self-help	Nonprofit social services organizations, Children's Protective Services Departments (DSS)	Provide abusive parent with peer counseling as role model	Dade County, FL (Parent Resource Center), King County, WA (Children's Protective Services); and others
Peer counseling in public schools	Promotion of self-help	School staff (guidance counselors), graduate school volunteers	Develop curriculum and peer counseling that matches students with those who have problems	Palo Alto, CA (Community School District); Baltimore, MD (Community School District); many districts in California, Montana

B. Helping People Who Can't Help Themselves

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
New volunteer roles in custodianship of aged	Administrative reform	AAA, Department of Social Services	Appoint voluntary custodians for mentally impaired elderly	Montgomery County, MD (AAA)
Court watch, victim assistance, neighborhood watch	Administrative reform	AAA; Witness Services Unit; Police Department, community groups	Organize older volunteers to monitor and assist older plaintiffs, defendants, and witnesses; help in coping; organize support resources for victims of crime; conduct watch and reassurance in neighborhoods, housing	Milwaukee County, WI (AAA); Indianapolis, IN (AAA); Chicago, IL (AAA); North Bronx, NY (North Bronx Coalition)
Assistance to families caring for vulnerable adults	Collaboration with private sector, promotion of self-help	Nonprofit, nongovernmentally funded community organizations	Provide families with stress reduction by counseling, temporary assistance, referral to other supports as an incentive for continued care role.	New York, NY (Community Service Society)
Volunteer bank for support of social welfare needs of aged, youth, adults Department)	Collaboration with the private sector	Mayor's Office, office of volunteer services in Department of Social Services	Solicit volunteers and integrate in various programs, such as nursing home visits, homemaker assistance, youth counseling, senior centers	Baltimore, MD (Mayor's Office); Chicago, IL (AAA); New York, NY (AAA); Los Angeles, CA (AAA); San Diego, CA (Recreation
Matching older adults with vulnerable homebound aged, or older adults with families	Collaboration with private sector	Nonprofit organizations, home-matching program, or Social Services Department	Match adults with shelter needs with vulnerable aged to provide care and mutual support, or match older adults with families	Cayuga County, NY; Oakland and Santa Clara Counties, CA; Seattle, WA
Linking homebound adults with family, neighborhood, or community resources	Administrative reform	Title XX homemaker assistance program	Find external resources for clients, possibly reducing caseload and increasing care level	San Antonio, TX (Department of Human Resources)
Using elderly and school-aged volunteers to expand homemaker assistance	Collaboration with private sector	AAA, school districts, nonprofit homemaker assistance programs	Provide for AAA work with schools, or senior centers, to identify and link volunteers as providers of direct or supplemental homemaker assistance	Athens, GA (local NCOA Office); Huntsville, AL (AAA); Wichita, KS (American Red Cross); Durango, CO (AAA)

Table 4 (continued)

PROMOTING MENTAL HEALTH

C. Assisting the Unemployed Through Voluntary and Private Sector Efforts

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Information on coping with for unemployment displaced workers	Collaboration with the private sector	Community nonprofit charitable organization, Employment Security Commission	Alleviate social and mental health impacts of displacement by distributing, with unemployment checks, information on emotional impact of unemployment, strategies for job retraining, and job hunting	Wayne County, MI (United Community Services and the United Foundation)
Counseling/referral, organizing	Collaboration with private sector	Family Services organization coalition	Distribute materials through markets, unions, schools; organize ongoing counseling and training for displaced workers	Wayne County, MI (Tri-County Family Service Coalition)
Organization of public-private action group to address displacement	Collaboration with the private sector, Administrative reform	Coalition of 15 jurisdictions experiencing same problems, with private-sector members (permanent planning organization)	Advocate for changes by private-sector members for bank-lending policies during crisis, identify private-sector support resources for unemployed (discounts for car repairs). Local governments brief police, mental health professionals on adjusting practices to better respond to community needs	Wayne County, MI (Downriver Community Conference)

D. Mobilizing the Private Sector Role

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Private firms provide mental health services on site	Collaboration with the private sector	Firm's industrial health services department	Provide array of mental health care: alcoholism, drug counseling, mental "wellness" program	Examples: Kennecott Copper, Blue Cross of Western Pennsylvania, General Motors, Bethlehem Steel, Kimberly Clark, Eastman Kodak
Private firms contract with nonprofit or community mental health center for provision of mental health care	Collaboration with the private sector	Firm's health department, nonprofit association (mental health associations), community mental health center or hospital	Provide mental health services on-site or in community without adding to company staff, provide more confidentiality and access to employees and family. Mental health HMO concept offers preventive care	Columbus, OH (North Central CMHC, contracts with 10 businesses); General Electric (has HMO agreement with McClain Psychiatric Hospital/Massachusetts General)
Union provides mental health care in local's facilities or through clinic in community	Self-help	Union social services department	Provide services (through union dues) not covered adequately by employer; focus on worker well-being rather than productivity	St. Louis, MO (Health Services Institute); Centerville, PA (United Mine Workers and Runelston Medical Group); New York, NY (American Federation of State, County, and Municipal Employees); Philadelphia, PA (Carpenters Family Service Plan, AFL-CIO Medical Service Plan); Chicago, IL (Eleanor Roosevelt Union Health Guidance Center); New York, NY (Central Labor Council, Public Assistance Workers, Amalgamated Clothing and Textile Workers Union)

Table 4 (concluded)

PROMOTING MENTAL HEALTH

E. Redefining the Public-Sector Role

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Police capacity to address domestic and mental health problems	Administrative reform	Police, social services, department, community mental health center in response to mayor or agency initiative	Develop crisis intervention team using civilian patrols, or CMHC train officers to respond effectively to domestic and mental health calls. Reduce repeat calls and provide better intervention	Chicago, IL (Community Intervention Service Program); Charleston, NC (Curbstone Crisis Intervention Program); Galveston, TX (mental health deputy in Police Department); New York, NY, and New Orleans, LA (police department Social Services departments)
System for monitoring community vulnerable residents living alone, identified by red dots on mail boxes	Administrative reform	AAA, social services department, post office	Seek registrants through senior centers by using AAA or social services department. Post office places dots on mail boxes, postmen check for mail pick-up. After 2-day delay, they notify AAA, which contacts person or sends police or caseworker to check	Seattle, WA (AAA) San Diego, CA (AAA)

F. Supportive Resources for Vulnerable Groups

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Nongovernmental, nonresidential support groups for transitional living and employment, public facilitation and advocacy	Promotion of self-help, collaboration with the private sector, advocacy	Community organization responsible for formerly institutionalized mental health patients, local department of mental health services	Help individual find housing, provide peer support, establish transitional employment in private sector. Local government facilitates organization. Seek changes in nonprofit charity allocations to support mental health needs of formerly institutionalized; encourage support from firms, such as provision of vehicles, employment, participation in job bank, and development of businesses by disabled	New York, NY (Fountain House and 80 other similar support clubs nationally); Brentwood, CA (Veterans Administration); Hennepin County, MN (Department of Mental Health Services); San Francisco, CA (Delancey Street Foundation, City Planning Commission)
Nongovernmental therapeutic residential community for formerly institutionalized offenders/substance abusers, local assistance on facility development	Promotion of self-help, regulation	Community organization responsible for former substance abusers, local government	Provide communal shelter, therapeutic environment, training, work experience in organization businesses: operate credit union; support education. Local government assistance in permits and zoning	San Francisco, CA (Delancey Street Foundation)
Informal self-help clubs for chronic problems of formerly institutionalized	Promotion of self-help	Local government community mental health services department	Organize or provide space and referral for self-help groups through help of local government	Alcoholics Anonymous, Recovery Incorporated (nationwide)

Table 5

ENSURING PHYSICAL HEALTH CARE

A. Ensuring that Providers Meet Community Needs

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Institutional master plan requirement	Regulation	City/county planning commission	Use permit approval process (zoning, building) to negotiate impacts with hospitals planning expansions; designed to reduce unrequired growth, develop trade-offs such as mutual sevice agreements	San Francisco, CA (Planning Commission)
Nursing home care quality and civil rights of residents	Advocacy	AAA, volunteers	Develop a locally based ombudsman strategy using older volunteers to monitor quality and provide consumer information and support	Portland, OR (Clackamas County AAA); Flint, MI (Valley Area Agency on Aging); Elizabeth, NJ (Union County Office on Aging), Baltimore, MD (Office on Aging); Chicago, IL (Office on Aging)
Quality-of-care standards in board and care homes	Regulation, advocacy	County department of health inspection, community advocacy organization	Target inspection of board-and-care facilities to determine compliance with quality of care and and code objectives	Maricopa County, AZ (Health Department and Center for Law in the Public Interest)
Insurance industry representatives reduce fraud and abuse of aged	Collaboration with private sector	AAA senior centers, local insurance firms	Develop volunteer insurance counselors to help aged assess insurance gap needs and better understand existing coverage	San Diego, CA (AAA)

B. Increasing Access to Health Care Systems

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Identify and provide referral to physicians or health plans that will accept Medicare/Medicaid rates as payment in full	Promotion of self-help, advocacy	Senior center staff, other public health or social services staff who identify physicians and refer clients	Reduce costs to aged or low-income groups, while increasing access to care through survey of clients and physicians	Palo Alto, CA (Palo Alto Senior Center Membership Association, Senior Coordinating Council of Palo Alto, Stanford University Department of Community and Preventive Health)
Use revenues from public health system to purchase memberships in private health plans for working poor and poor; broker, counsel, and advocate for clients. Match Medicare/Medicaid applicants with HMO plans	Administrative reform, collaboration with private sector	County commissioners, Department of Human Services, Health Division, or social services department, private health plans	Integrate federal and local health resources to contract for private health when public system is inoperable, so as to maintain and increase access to health care for low-income groups	Multnomah County, OR (Project Health); King County, WA (Department of Social Services and Group Health Cooperative of Puget Sound)
Help private hospitals to provide primary and preventive care in outstationed, low-income housing and community centers at marginal cost	Collaboration with private sector	Private hospital directorship, staff, mayor, Housing Authority, and senior and community center directors	Increase access to health care and prevention by bringing nurse practitioners and physicians to those who have low mobility and are poor; use flexible sliding scale, third-party Medicare/Medicaid support through in-patient subsidy by institution; local government provides facilities	Baltimore, MD (Johns Hopkins University -Hospital/Broadway Housing Project and Waxter Senior Center; Maryland General Hospital; Union Memorial; Lutheran Hospital)
Facilitate growth of alternative health practices and centers through licensing and provision of hospital privileges	Deregulation, collaboration with private sector	Local zoning and health and safety inspections departments, private sector	Enable holistic health centers to set up and operate, as well as special care centers (for midwifery, hospices)	Over 200 holistic health centers nationally, many birth and hospice centers

Table 5 (Concluded)

ENSURING PHYSICAL HEALTH CARE

C. Supporting Prevention Through Nonservice Approaches

Nonservice Approach	Category	Actor(s)	Intended Effect	Jurisdiction(s)
Drug inventory systems monitor potential drug misuse	Administrative reform, collaboration with private sector	Public and private hospitals, nursing facilities, public health departments community pharmacies	Revise manual or computer information systems to monitor drug utilization to prevent misuse and provide drug information to aged and facilitate compliance	Los Angeles County, CA (County Hospital) San Francisco, CA (U.C. Medical Center) New York, NY (Isabella Geriatric Center); Multnomah County, Portland, OR (Public Health Department)
Preventive medical care gaps by accessing voluntary medical services	Collaboration with private sector	Area Agency on Aging, local professional societies	Organize and provide health fairs or special screening and care for eyes voluntary screening in senior housing and senior centers	Nederland, TX (AAA); Newport News, VA (AAA); Lewiston, ID (AAA); Los Angeles, CA (Westmoreland County AAA); El Paso and San Angelo, TX (AAA); San Antonio, TX (AAA); Public Housing Authority, Community Welfare Council; Baltimore, MD (Office on Aging and Johns Hopkins Hospital)
Private-sector development of preventive care	Collaboration with private sector	Individual businesses, sometimes working with nonprofit providers, sometimes under insuror incentive	Provide preventive care to reduce high-cost health and productivity consequences of stress and individual habits, such as smoking, obesity; provide exercise, blood pressure, screening and counseling	Examples: Speidel, Xerox, Mobil, Citibank, General Motors, Kimberly-Clark, IBM, ALZA, Electric Power Research Institute, Syntex
Development of self-help health maintenance groups	Promotion of self-help	Local governments, self-help groups (nonprofit, nonmedical groups)	Help members of the community cope with chronic problems for which management and support of conditions or sharing of resources is important; help local governments provide facilities for self-help organizations	Examples: Al-Anon, AA, Candlelighters, National Rare Blood Club, Association for Children with Learning Disabilities, National Association for Retarded Children, Mongoloid Development Council, National Society for Autistic Children, Anti-Coronary Club, Medic-Alert Foundation International, Mended Hearts

STATEMENT SUBMITTED TO
THE SENATE SUBCOMMITTEE ON INTERGOVERNMENTAL AFFAIRS
ON "ALTERNATIVE SERVICE DELIVERY"

By:

Richard S. Williamson
Assistant to the President
for Intergovernmental Affairs

September 1981

I would like to thank Senator Durenberger and members of the Subcommittee on Intergovernmental Relations for this opportunity to submit a statement on the important subject of alternative service delivery.

Alternative service delivery systems will be a key to responding to future community development and social welfare needs. The federal government cannot be the panacea for all our needs. Alternative services should complement and even substitute for the government if the community so chooses. That's the key -- allowing citizens to make choices once again. President Reagan believes groups of citizens can and will come together to deal effectively with problems facing them as the weight of the federal government is lifted.

The federal government is not the answer to all our problems as many citizens now know. Yet as the federal government has grown, Americans have grown dependent on the programs and services, even those initially forced upon them. Accompanying regulations have virtually smothered the innovative American spirit that made this nation great.

For twenty years we have looked to taxpayer-financed services to meet public needs. Poor and middle-class citizens have become dependent on government services they have been "told" are vital to their existence. They have forgotten, or perhaps are afraid, to look for answers in their own backyards or in their own communities. Solutions are there if we would only take more time to look. There are exceptions, of course, and these hearings have brought forward many who have found their own answers despite the weight or threat of government intrusion.

The President's initiatives will provide a framework for involving local governments, businesses, non-profit organizations and citizens to answer many local problems and needs. We must mobilize local citizen participation through a variety of means. But first, barriers preventing innovation must be lowered or eliminated.

So far, this Administration has concentrated on rejuvenating the economy. Slowing the growth of the federal government is a priority. Together with a bipartisan coalition in Congress, we have won for the working people in this country the largest budget and tax reductions in history. Yet the President said in March:

> "We're not cutting the budget simply for the sake of sounder financial management. This is only a first step toward reordering the relationship between citizen and government."

The budget cuts also will force a long-needed look at the relationship between the corporate, non-profit and government sectors. The President believes the private sector, voluntary groups and government can work together to provide better services and raise the quality of life for all Americans.

Tax cuts will provide a larger revenue base for states and cities, and tax incentives will revitalize economic activity. Through tax incentives the President intends to stimulate the private sector to create jobs in depressed urban areas. Small businesses, the backbone of neighborhood communities, will flourish. As the economy of the city improves, neighbors will move to solve their community problems to maintain the higher quality of life. Groups like Sister Fattah's Philadelphia House of Imoja will come into being. (Sister Fattah has helped over 500 boys from youth gangs move toward productive lives). Crime in the community will decrease as citizens gain a pride in their community as more people are added to the employment rolls.

The Attorney General's Task Force on Violent Crime, which recently completed its study, was geared towards finding what government could do to fight crime, although they were cognizant of the necessity for citizen involvement. During their hearings across the country, they heard from local groups such as victims assistance units. One group began through funding by the Law Enforcement Assistance Administration but was now on its own. The spirit of independence is alive in America.

The President looks to tax incentives as well for stimulating private health systems and for encouraging physicians to work in underserved areas. These and other "non-service" approaches are actively being pursued while other alternative service delivery systems are being studied.

The President is fighting for block grants which allow citizens and elected officials at the local level to set their own priorities for use of federal government funding. The flexibility of block grants will mean funds can be targetted to areas of greatest need in that particular state or community.

Local officials will be more accountable for decisions affecting the lives of their constituents. Citizens will not have to deal with impersonal decisions made by faceless bureaucrats in Washington. There is not a monopoly of wisdom on the banks of the Potomac. If citizens know or have more control of how their tax money is spent, they have a better chance to eliminate mismanagement and waste of their hard-earned dollars.

A ruling by the Department of Transportation, for example, has recently been changed. Section 504 told communities specifically how to provide handicapped persons with transportation. The new ruling provides freedom of choice. Each grantee must continue to certify they are meeting the transportation needs of the handicapped but the methods chosen are of local option.

And as we reduce other federal government regulations, Americans will save tax dollars that would have been diverted to comply with an overwhelming amount of regulations.

Less regulations will also free the market system. The private sector will have more resources and fewer strings, allowing it to expand and perhaps take over services now provided by the government. Studies have shown that competition between public and private sectors spur efficiency and productivity. Assistant Secretary of HUD, Dr. E. S. Savas, who testified during your hearings, reports

> "Many cities have demonstrated they can deliver services in a far more cost-effective manner through better management and greater productivity ... some cities are using alternative means of providing services and are saving 20% to 40% of the cost of services without reducing the quality or level of services."

This private-public competition will force the government to provide us with what we really need, not telling us what we need.

President Reagan began discussions last week to form a task force on private sector initiatives. The forum will enable members to study voluntary methods for increasing the quality of life and solving community problems. They will look at and learn from small organizations and bands of citizens who have faced problems, devised solutions and acted to the benefit of their neighbors. Vital issues like education, youth employment, crime prevention, health and health promotion will be looked at. The Administration is driving hard to find ways to fill gaps created where budget cuts will occur and where this Administration feels the government should not have become involved initially.

On Thursday night, September 24th, during his Address to the Nation, President Reagan announced a nationwide effort to encourage citizens to find where need exists in their communities and organize volunteer programs to meet that need.

President Reagan believes the spirit of voluntarism still lives in America. Americans, with their spirit of independence and pride, the President recounted,

> "built the West without an area redevelopment plan, and cities across the land without federal planning ... We see examples of (voluntarism) on every hand, the community charity drive, support of hospitals and all manner of non-profit institutions, the rallying around whenever disaster or tragedy strikes.
>
> "The truth is we've let government take away many things we once considered were really ours to do voluntarily out of the goodness of our hearts and a sense of community pride and neighborliness. I believe many of you want to do those things again, want to be involved if only someone will ask you or offer the opportunity. Well, we intend to make that offer."

We have a variety of tools from which to choose in responding to problems. Alternative service delivery systems can fill the gaps, supplementing or replacing existing government services. The Administration hopes these discussions will continue with audiences across the nation. We have a framework from which to begin and we are committed to learning what else can be done to encourage citizens and localities to try to solve their community problems before turning to the federal government.

Americans are capable of meeting the challenge of the future. They forged ahead under tremendous obstacles in the past. We believe they can do it again if the weight of the federal government is lifted. We intend to create an atmosphere where citizens have the confidence to meet the needs of their communities. When communities can adapt new and creative solutions for their unique needs, its citizens will revive that American spirit and American will move forward again.

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TESTIMONY BY THE SOUTHEASTERN NETWORK OF RUNAWAY YOUTH & FAMILY SERVICES

> "These services have relied too heavily on Federal monies to operate their programs. Because businesses, foundations, local governments, and the general public have little of their own dollars in these programs, there is little vested interest in seeing that these community services develop, grow, operate, and continue."

If one were asked to guess when the above quote was made and by whom, in all likelihood it would be attributed to a Reagan Administration spokesman either during the campaign in the Fall of 1980 or since President Reagan took office. In fact it was the basis for a foundation grant awarded in May, 1980, and spoken by people who operate a particular type of community service program: services for Runaway Youth and their families.

The concept that Federal responsibility for community service programs should be diminished and that business, local government, and general public responsibility should be increased is not a new concept. Runaway Youth and Family Service programs, like many other community service programs, have long wanted local investment and involvement. But as long as the Federal Government continued to supply the resources, there was little incentive to search for alternative dollars. Often these dollars were difficult to obtain because local governments, businesses, and the general public knew that "the Federal government would handle the problem."

The plans of the Reagan Administration, with support from the Senate and House, now promise to radically change the role and responsibilities of the Federal Government in provision of monies for community service programs. In many ways, these changes are a reflection of an attitude change by the general public that now states that "the Federal Government cannot handle the problem."

Even though this attitude change has been made (and is still being made) other impediments to securing alternative sources of revenue are present. The major impediment appears to be a mechanism to link community service programs with corporate giving, general public giving, and local government.

There are some traditional mechanisms linking non-governmental resources with community service programs. The two best known mechanisms are the United Way and foundations (including community, private, and corporate foundations.) Neither of these traditional mechanisms is capable of handling the explosive increases in dollars that community service programs will need. They do not have the staff or resource capability to provide the necessary linkages. In general, both of these types of mechanisms (especially the United Way) are geared to the more traditional community service programs. To fund only the traditional, well established service programs would be a great disservice to people who depend on the less traditional programs.

Some non-traditional mechanisms have been developed in the last few years. The quote mentioned at the opening of this concept paper was from a program which represents twenty-one runaway and community crisis service centers in the eight

Southeastern states. The Southeastern Network of Runaway Youth and Family Services, through a grant from the Mary Reynolds Babcock Foundation in Winston-Salem, North Carolina, and funds from HHS (Youth Development Bureau) is attempting to link these services with corporate, foundation, and local government funding. This linkage is being accomplished through a process involving assessment of funding potential, planning, and training staff of these programs to effectively solicit non-governmental funding. Other associations of runaway services throughout the United States are in varying degrees attempting similar projects.

Several features of the model used by the Southeastern Network are noteworthy. First, over 60% of this project is privately funded (Babcock Foundation). Private funding of such mechanisms should be strongly encouraged. Second, such mechanisms are extremely inexpensive and cost effective. For programs representing a current federal investment of more than $1.7 million, less than $60,000 (or approximately 3%) is being spent to attempt to replace these dollars with private dollars. Finally, of the three processes in this model (assessment, planning, and training), training of staff to effectively solicit non-government funding appears to be most important. Runaway Youth and Family Service programs, like many other community service programs, know how to effectively provide service and how to efficiently conduct business. But they generally did not know how to raise corporate or private dollars. Training in this skill is essential.

Even with a linkage mechanism model like the one used by the Southeastern Network of Runaway Youth and Family Services, there are still impediments to making a successful shift from federal to private monies. Some of these impediments are:

1. Lack of better incentives for business and the general public to give. Current tax laws are inadequate in providing incentives for givings.
2. Lack of a coordinate, consistent, national plan to encourage the shift of funding in an orderly fashion.
3. Lack of information on opportunities for alternative funding. The speed at which the federal role is changing far surpasses the information on how to make effective linkages.
4. The proposed block grant program is an impediment. The program shifts responsibilities to the states from the federal government but does nothing to truely encourage corporate and private funding. In fact, many community service programs are spending valuable time that should be devoted to finding private funding to securing their "share" of the state block funding.
5. Lack of incentives for community service programs to shift. It can be clearly argued that there are incentives such as getting out from under the burden of bureacracy, developing a more permanent, stable

> funding base, more public involvement in their programs, etc., but many programs can see only their day to day need for resources. Although it is a negative incentive, any government monies should be awarded on the basis of increasing private match each year. This approach has been used before without great success because it failed to set realistic time spans for accomplishing the task, and it failed to provide the support and training of staff to accomplish the task.

All of the impediments mentioned can be removed. The rightful role of the Federal Government is to provide leadership in the development of these effective linkages between community service programs and corporate/foundation/public giving. These hearings are certainly a step in the right direction.

By holding such hearings all parties have something to substantially gain. Elected Federal officials demonstrate that they are concerned with continuing community service programs with monies other than Federal tax dollars. This should diffuse some negative public opinion being generated on behalf of some community service programs who can now argue that the Federal Government is only interested in abolishing programs. Corporate and foundation leadership would gain a systematic way of supporting programs rather than the confusion and frustration of the barrage of requests they are now receiving. It would enhance their public image to be able to fund programs rather than having to turn away requests. It would also give them a chance to show the general public that they are genuinely interested in this issue. Finally, community service programs would gain the mechanisms to acquire the resources and involvement in their programs.

Hopefully, these hearings will become a first step in development of a much needed Federal policy on community service programs. And translating this policy to action should be legislation which provides better incentives for giving by the business community and the general public, and provides a national plan to encourage shifting of funding to the private sector in an orderly, informed, consistent fashion.

Respectfully submitted,

Frank G. Moseley
Executive Director
Southeastern Network of Runaway Youth
and Family Services

FGM:sn

SENATOR DURENBERGER

The task force report, which we are submitting herein for your consideration, also identified roadblocks often encountered by non-profits in this field, and made general recommendations for resolving these problems.

We would like to specifically draw your attention to the Appendices of this report, where eight specific case studies are outlined. Further information on any of these programs, as well as many others being undertaken by the Appalachian Mountain Club and the organizations listed in this report, can be obtained by contacting our office.

We believe that the information provided by this document, and by the completed document: Nationwide Outdoor Recreation Plan, will be valuable to your committee as it considers alternatives to public service delivery in the natural resources field. There are many other issues we would be happy to raise and discuss with you. Please do not hesitate to contact us.

Sincerely:

mas S Deans

Thomas S. Deans
Executive Director

REPORT OF THE TASK FORCE
TO CONSIDER
THE ROLE OF NON-PROFIT ORGANIZATIONS
IN PROVIDING
OUTDOOR RECREATIONAL OPPORTUNITIES

for the

1978 NATIONWIDE OUTDOOR RECREATION PLAN

May, 1978

Prepared for
The Heritage Conservation and
  Recreation Service
Department of the Interior

Report of the Task Force to Consider the Role of Non-Profit Organizations in Providing Outdoor Recreational Opportunities

May, 1978

Summary

The task force was assembled and chaired by the Appalachian Mountain Club under the direction of the Heritage Conservation and Recreation Service. Its subject was one of sixteen national priority issues identified by the Secretary of the Interior in connection with the preparation of the 1978 Nationwide Outdoor Recreation Plan. The task force consisted of a number of non-profit organizations and representatives of federal and state agencies concerned with recreational opportunities.

The principal conclusion of the task force is that volunteer non-profit organizations fulfill a vital role in the provision of recreational opportunities and wherever possible these contributions should be fostered and encouraged at all levels of government, federal, state and local. In providing these opportunities, non-profit organizations offer the advantages of substantial public involvement, cost effectiveness, flexibility and diversity. These advantages would be enhanced if the following recommendations are adopted:

(a) Establish, at a high federal level, a policy favoring the provisions of recreational programs for the public by non-profit organizations;

(b) Collect and disseminate, both to public managers and the general public, information about the capabilities of non-profit organizations to provide recreational opportunities, and make available to non-profit organizations information as to the opportunities for participation available to non-profit organizations information as to the opportunities for participation available to them;

(c) Assure that federal agency regulations and other procedures facilitate the use of non-profit organizations; and

(d) Reimburse non-profit organizations for services rendered by them in providing recreational opportunities.

The task force identifies a number of specific recommendations designed to implement the broad recommendations set forth above.

The task force concluded that substantial general public financial assistance should not be necessary and that in fact no funds need be provided to non-profit organizations except in return for value received. The opportunity to provide services, coupled with reimbursement for these services, will result in better and less costly public recreational opportunities and assure the health of the servicing non-profit organizations.

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A - Task Force Participants and Contributors

B - Current Non-Profit Programs and Activities

C - Case Studies

D - Alternatives for Future Consideration

I. Introduction

In the fall of 1977, the Heritage Conservation and Recreation Service (HCRS), formerly the Bureau of Outdoor Recreation, began preparation of the 1978 Nationwide Outdoor Recreation Plan, as required by PL 88-29. The Plan was prepared in 1973 and the Act requires that it be updated every five years. The Plan must "set forth the needs and demands of the public for outdoor recreation and the current and foreseeable availability in the future of outdoor recreation resources to meet those needs."

As a first step in the preparation of the 1978 Plan, HCRS initiated a national public involvement program in order to identify priority issues to be considered in the Plan. Numerous agencies, organizations and individuals across the country responded to a request for identification of important recreation issues. Based on this response and the subsequent recommendations of HCRS, the Secretary of the Interior selected sixteen National Priority Issues in early March. One of those issues is the role of volunteer non-profit organizations in providing outdoor recreational opportunities.

To further investigate this issue, and to develop specific recommendations for federal actions, HCRS contracted with the Appalachian Mountain Club (AMC) to assemble a task force consisting of representatives from both public agencies and non-profit organizations. This report is the product of the task force's work.

Task Force Charge

Non-profit organizations conduct an exceedingly wide range of recreational activities, both on and off public lands. Because the task force was required to complete its work within a ten-week period, HCRS determined that the work of the task force would have to be more or less arbitrarily limited. Therefore HCRS, in cooperation with the AMC, developed the following charge for the task force:

> The task force to consider non-profit organizations in outdoor recreational activities should focus on the role of such organizations in furthering the following national goals:
>
> 1. Providing recreational opportunities; and
> 2. Promoting an awareness of the value of the environment
>
> In particular, the task force should consider how the federal government can cooperate with such organizations so that they can provide outdoor and educational programs and services on or related to undeveloped public lands.

In its work, the task force should keep in mind the following values among others which have been identified by HCRS as important in developing the 1978 Nationwide Outdoor Recreation Plan:

1. Energy conservation
2. Employment opportunities
3. Access from urban areas
4. Mental and physical health
5. Efficient use of financial and other public resources
6. Wide local involvement and participation
7. Wide spectrum of recreational opportunities

Composition of Task Force and Method of Operation

Public agencies and non-profit organizations were invited to participate in the work of the task force by the AMC after consultation with HCRS. Six federal and state agencies and twenty-three non-profit organizations participated. A list of contributors and participants is attached as Appendix A to this report. In inviting participation, attention was paid to diversity of the types of organizations. Geographic proximity to Boston, Massachusetts, the headquarters of the AMC, also had to be taken into account because of the relatively short time within which the task force was required to work. Participating organizations were urged wherever possible to participate through their volunteer leadership rather than through their professional staff.

After an initial exploration and further refinement of its charge, the task force first sought to identify appropriate activities now being carried on by non-profit organizations, plus additional activities which such organizations might have the capacity and interest to carry on. These activities were then classified into functional groups. As a next step, the task force explored the interrelationship between non-profit organizations and governmental agencies as they now exist. Out of this work grew a consensus as to the importance of the role of non-profit organizations and a belief that the Plan should strongly endorse this role. The task force next turned to a search for ways in which the role of non-profit organizations could be enhanced and their work facilitated, which in turn led to the recommendations contained in this report.

II. Current Activities Carried on by Non-Profit Organizations, and Areas of Further Opportunity

The recreational activities conducted by non-profit organizations which are relevant to this report are those carried out on or related to "undeveloped public lands". The task force has taken this phrase to refer to lands in public ownership and used primarily in connection with their natural characteristics. Such lands may contain structures or other developed features, so long as they primarily support the use and appreciation of the lands' natural characteristics.

The charge of the task force does not limit it to consideration of activities conducted solely on public lands. Accordingly the task force has considered activities which take place both on and off of public lands so long as these activities are directed toward recreational activities which ultimately occur on the public lands. For example, programs designed to foster skills, safety and understanding take place in numerous locations; the task force considers such programs within the range of its interest because of the contribution which they make to recreational activities on public lands.

Functional Grouping of Activities

The task force believes that it is most useful to look at activities conducted by non-profit organizations by grouping them functionally. The task force believes that the following outline is a useful one for this purpose.

I. On Site Programs and Activities

  A. Facilities Related

  B. Program Related

    1. Interpretative Education
    2. Activity Information and Programs (how to, where to, when to)
    3. Skills Education and Training

II. Off Site Programs and Activities

  A. Planning

  B. Interpretative Education

  C. Activity Information and Programs (how to, where to, when to)

  D. Skills Education and Training

  E. Programs Designed to Encourage and Facilitate Use by Specific Target Populations

Within this framework a very large number of activities have been identified. Appendix B contains a list of such activities compiled by the task force, based upon those activities conducted by task force participants as well as other activities known by task force members to be carried on by others. The list is by no means exhaustive.

Appendix C consists of several more detailed descriptions of particular activities. These "case studies" are intended to help the reader develop a better understanding of a few of the many ways in which non-profit organizations now provide recreational opportunities on or related to public lands.

Even a cursory review of the appendices gives an idea of the breadth of the capabilities of non-profit organization in providing recreational opportunities. These capabilities range from the maintenance of substantial facilities to the provision of a broad range of programs.

Facilities include trails constructed and maintained for vehicular, pedestrian and equestrian use, campsites, sanitary facilities, and staffed facilities capable of furnishing food and lodging.

Program related activities are even more extensive. Such programs may be conducted in facilities on public lands or in a multitude of other locations. They may consist of lectures, workshops, or other face-to-face programs. They may also consist of posters, brochures, books, manuals and a wide range of other written or visual material.

Programs also include planning activities relating to federal, state and local public lands as well as private lands, and may involve anything from a specific short-term plan for a particular area to a Nationwide Outdoor Recreation Plan. Planning assistance ranges from written comment to extended consultation and technical assistance.

There are a number of programs designed to provide opportunities for specific target populations. Such programs may provide opportunities such as summer camps or organized trips or they may be designed to make target populations aware of existing opportunities. Such programs are often aimed at young people, minority groups, the economically disadvantaged and the handicapped.

Programs conducted off site, it should be noted, have the advantage of not being tied to a particular location or public agency. While for this reason public agencies may find such programs harder to deal with, these programs may make users aware of a wider spectrum of opportunity and, overall, contribute to more effective recreational use of private as well as public lands. Off site skills education and training programs also have the advantage of being able to select the most effective learning environment, which may not always be on public lands.

It has been noted that the task force made an effort to identify not only activities now being conducted but also additional activities which non-profit organizations might be willing or able to conduct. An examination of Appendix B suggests that non-profit organizations are already "into" so many activities that there are few additional ones not now being conducted at least to some degree. On the other hand, there are a number of activities now being conducted which contain the potential for considerable expansion. Almost all on site activities, plus planning, information dissemination and access oriented activities could be provide in greater depth than is now the case, particularly on state and local lands.

III. Principal Conclusion

The principal conclusion of the task force is that FIRST, VOLUNTEER NON-PROFIT ORGANIZATIONS FULFILL A VITAL ROLE IN THE PROVISION OF RECREATIONAL OPPORTUNITIES AND, SECOND, WHEREVER POSSIBLE THESE CONTRIBUTIONS SHOULD BE FOSTERED AND ENCOURAGED AT ALL LEVELS OF GOVERNMENT, FEDERAL, STATE AND LOCAL.

Volunteer non-profit organizations offer several significant advantages in providing recreational opportunities. The most important of these is the increased public involvement which results from their activities. By their very nature, volunteer non-profit organizations function through interested and dedicated citizens. This public involvement has many benefits:

> It fosters a sense of responsibility. Active volunteers do not feel like visitors or outsiders. They assume a sense of responsibility for the success of the program, a strong desire to see the program through to a successful result and a sense of pride in their success.
>
> It educates the participants. Through their involvement, volunteers and other participants develop a greatly increased environmental awareness and appreciation of our recreational resources. They also become much more aware of and sympathetic to the problems faced by public managers.
>
> It may be a very cost effective way of conducting programs. The combination of volunteers and paid staff, plus the high degree of enthusiasm and motivation in most non-profit organizations often results in a very high quality product at minimum cost.

A second major advantage of non-profit organizations is their great diversity and flexibility. This often results in the provision of recreational opportunities which are not provided by public agencies.

> Private non-profit organizations are not tied to any particular government agency. They are generally oriented toward particular programs which may cut across conventional jurisdictional lines. Since non-profit organizations are not handicapped by statutory or other prescribed jurisdictional

limitations, they are particularly well suited to planning, information and access programs which can utilize the resources of a variety of federal, state and local governmental agencies.

A related advantage of most non-profit organizations is their lack of a tie to a specific site. Programs can be conducted at a number of locations, both on and off of public lands, and this flexibility adds greatly to the effectiveness of the programs they conduct. This is particularly true of programs which are most effectively conducted off of public lands, where most governmental agencies are severely handicapped.

Non-profit organizations also often have a greater capacity than many public agencies to provide needed programs because they are not constrained by the same budgetary limitations as public agencies. Generally their budget processes are less cumbersome and they are not required to compete with so many other demands for the use of their funds. In some instances non-profit organizations have as a result been able to carry on programs which public agencies were forced to abandon.

Because of their diversity, most non-profit organizations are closely linked to particular user constituencies. This permits the organizations to identify more easily particular services for which there is or is not a need, based upon the comments and suggestions of their members and the public. Non-profit organizations are thus able to offer recreational opportunities most responsive to public need and to discontinue programs which are not responsive.

This close link with the public also gives non-profit organizations an advantage in communicating important information concerning recreational programs or problems to the public. They can provide an extremely effective communications channel for public agencies in this regard.

The task force acknowledges that non-profit organizations have some weaknesses. In particular, the very diversity which is in many ways a strength also may create a problem for public managers trying to coordinate the efforts of diverse organizations. Furthermore, the use of volunteers can cause problems of dependability, and the quality of programs conducted by non-profit organizations accordingly may suffer from time to time. There are, of course, considerable differences among non-profit organizations in this respect. For example, many organizations have sufficient resources to utilize substantial staff support.

Despite the risks associated with volunteer non-profit organizations, the task force is unanimously of the view that the advantages of the use of such organizations greatly outweigh any possible risks of disadvantages. Accordingly, all levels of government, federal, state and local, should be strongly encouraged to utilize non-profit organizations to provide recreational opportunities wherever possible.

In the implementation of this policy, however, the task force believes that certain basic questions must be clarified, particularly as to the appropriate federal role and responsibility. In the case of programs and activities conducted on public lands, the public responsibility for the program or activity is usually vested in the particular land management agency. This agency is therefore in a ready position to evaluate the appropriateness and merit of specific programs and activities, and to oversee its conduct.

However, in the case of programs and activities not conducted directly on public lands, federal policy and responsibility are much less clear. Most of the existing federal recreation policy appears to the task force to be articulated through the federal land management agencies and, not surprisingly, tends to relate rather closely to the land being managed. However, many meritorious programs which contribute to (often implicit) national recreation goals are conducted by non-profit organizations at numerous other locations. Both federal recreation goals and the responsibility for their implementation are currently substantially undefined in relation to off site activities. All of the task force participants, including the representatives of public agencies, believe that there should be a more general articulation of public policy concerning recreational programs not tied to specific sites. The establishment of such policy would greatly facilitate the establishment of responsibility for evaluation and, in appropriate cases, support of the activities of non-profit organizations in the conduct of off site programs. The task force believes that this policy should be supportive of the conduct of off site recreational programs by non-profit organizations and, anticipating such a policy, the task force has sought to formulate recommendations for federal support of off site as well as on site programs.

IV. Realizing the Strengths of Non-Profits; General Considerations

In the course of identifying the strengths, and the weaknesses, of volunteer non-profit organizations, the task force identified several techniques which it believes are useful for public agencies to best utilize the strengths, and avoid the weaknesses, of non-profit organizations. The task force believes that the use of these techniques will facilitate the implementation of the recommendations of the task force contained in the next section of this report.

The Distinction Between Programs and Projects

The task force draws a distinction between projects, which are short-term, often unrelated and discontinuous efforts, often conducted by individual volunteers or loosely organized groups, and programs, which are on going efforts of independent value and significance and which generally must be conducted by stable organizations. Public agencies have used individual volunteers and non-profit organizations for a wide variety of projects such as sporadic litter pickup, "one-shot" construction projects and the like. However, projects of this sort require that public managers integrate them into existing program structures and expend a rather high amount of administrative supervision. As a result, project involvement by individual volunteers and non-profit organizations tends to be peripheral and of distinctly secondary value to public agencies.

On the other hand, involvement of non-profit organizations in on-going programs benefits both the non-profit organizations and the affected public agencies. From the perspective of the non-profit organizations, program involvement results in greater responsibility and hence a greater sense of achievement and involvement. From the perspective of the public agency, program participation by stable organizations requires much less administrative supervision and permits a clear assignment of responsibility for the success of the program. Cooperative agreements and other contractual arrangements can be used to explicitly set out the respective responsibilities of the parties and further reduce the administrative burden to the public agency. Such agreements and arrangements can and should clearly set forth the standards of performance to which the non-profit organizations are to be held accountable.

Opportunities Available for Non-Profit Organizations

The task force is aware that non-profit organizations are from time to time excluded from opportunities to conduct programs on public lands, particularly Park Service lands, in favor of profit-making enterprises. The task force does not believe that it is appropriate to exclude non-profit organizations from any opportunities which are open to the private, for profit sector. Public agencies should focus on the quality of the service and the cost of obtaining it rather than on the nature of the organization providing it. It seems inappropriate when public money is involved to impose an obstacle to the provision of the service by volunteer non-profit organizations since this precludes the benefits of decreased public cost and increased public involvement.

The task force is aware that some concern has been expressed that the use of non-profit organizations would curtail employment opportunities generally. However, it is important to note that non-profit organizations utilize paid staff as well as volunteer effort, and provide substantial employment. In any event, consideration as to whether a particular service can be profitably performed should not prevent non-profit organizations from providing it when they are willing and able to do so.

Effective Participation in Planning Activities

It has earlier been observed that non-profit organizations have unique capabilities in the planning stages of programs. However, often public participation in the planning process is limited to response to already prepared proposals. In such cases, a rather detailed plan is made public and comments, in writing or at public hearings, are invited from the public at large. While such comments can be useful, the task force does not believe that by themselves they constitute sufficient participation in the planning process. Rather, where possible non-profit organizations with the appropriate skills should be invited to participate actively in the formulation of plans for programs from the outset. See for an example Case Study 4 in Appendix C. Further, important parts of the planning process could be delegated to suitable non-profit organizations. Participation in this way would take maximum advantage of the special skills of a number of non-profit organizations.

Utilization of Technical Capabilities

Many non-profit organizations have special knowledge and skills and access to specific user populations. However, these capabilities are often unknown to public agencies. A serious effort should therefore be made to identify and publicize these skills among the public agencies so that the agencies can draw upon them at the appropriate time. The agencies must of course be willing to utilize this expertise; in addition to publicizing its availability, agencies should be strongly encouraged to make use of it.

Appropriate Financial Support

The task force discussed at some length the kinds of support that would be appropriate and beneficial. In particular, the group discussed if, and under what circumstances, financial support should be provided. The task force concluded that financial assistance was, in some instances, appropriate, but that such assistance should in almost all cases be in return for specific services rendered, services which are judged to be valuable and necessary, cost-efficient and competitive, and which result in the public benefits earlier described. This assistance should not in any event involve payment for services provided by volunteers but should be limited to reimbursement for costs (including staff salaries) incurred by the non-profit organizations, in providing and administering meaningful volunteer involvement.

Increased Public Awareness of Non-Profit Capabilities

Finally, although many non-profit organizations are already well-known providers of recreational opportunities, more could be done to increase public awareness. The more generally the capabilities of non-profit organizations are known, the better these organizations will be able to assist public agencies to provide recreational opportunities to the public at large.

V. Recommendations

The recommendations of the task force stem directly from its principal conclusion, that volunteer non-profit organizations fulfill a vital role in the provision of recreational opportunities, and WHEREVER POSSIBLE THESE CONTRIBUTIONS SHOULD BE FOSTERED AND ENCOURAGED AT ALL LEVELS OF GOVERNMENT, FEDERAL, STATE AND LOCAL. Because the Plan is intended to provide direction to federal agencies, the following recommendations focus on federal actions designed to implement the task force's principal conclusion.

A. Statement of Federal Policy

National recreation policy does not now acknowledge the role of non-profit organizations. Accordingly, the task force strongly urges the formulation, at the cabinet level or higher, of a policy statement strongly supporting the role of non-profit organizations in providing recreational opportunities. The policy statement should have two major components. First, it should recognize and assert the imporant role of non-profit organizations for the reasons already set forth. Second, it should explicitly state that it is national policy to cooperate with and use the services of non-profit organizations, when possible, both on and off of public lands. The policy statement should then specify that instructions and guidelines be developed by all appropriate departments and agencies to insure its implementation.

B. On Site Activities

The level of on site activity by non-profit organizations varies greatly from agency to agency and region to region. The following recommendations are designed to increase the overall level of this activity insofar as it is conducted as specific sites on public lands. Certain of these recommendations will, however, also have application to the general provision of recreational opportunities by non-profit organizations:

1. Inventory of Opportunities. All federal land management agencies which provide public recreational opportunities should compile an inventory of those recreational opportunities which are suitable for involvement of non-profit organizations. Appendix B represents an example of such an inventory, although the inventories prepared by the particular agencies should be in much greater

detail. These inventories should then be the basis of an active program by each agency to seek greater participation by non-profit organizations.

2. Development and Clarification of Regulations. The instructions and guidelines of each appropriate federal agency should clearly specify that (a) the activities identified in the inventories referred to above are appropriate for the involvement of non-profit organizations, and (b) non-profit organizations should be provided when possible a full opportunity to provide services and programs in connection with these activities.

All regulations should be reviewed to insure that they contain no provisions which have the effect of excluding or restricting non-profit organizations from providing recreational opportunities and that there is affirmative authority for managers to utilize non-profit organizations. Where this utilization involves cooperative agreements or other contractual arrangements, the regulations should be as clear and as direct as possible in order to minimize "red tape".

3. Availability of Programs to Provide Personnel. There are several existing federal programs designed to foster employment opportunities, the Youth Conservation Corps (YCC), Young Adult Conservation Corps (YACC) and Comprehensive Employment and Training Act (CETA). The CETA program will be dealt with separately. The enabling legislation for both YCC (16 U.S.C. §1703(c) and YACC (29 U.S.C. §99e(a)(2)(B)(ii) specifically permit participation by non-profit organizations. However, federal administrative policies often exclude such participation, in direct conflict with the law. These policies should certainly be brought into conformity with the law so that in providing recreational opportunities on public lands non-profit organizations can utilize YCC and YACC personnel. Further, the task force recommends that affirmative action be taken to encourage this participation by non-profit organizations.

C. Off Site Activities

As has already been noted, the task force believes that there should be a clarification of federal policy with respect to federal responsibility for recreational activities not conducted on specific public lands. Because present policy is unclear in this area, the task force has developed somewhat lengthier recommendations for off site activities in an effort to underscore some of the particular opportunities which exist in this area.

1. Effective Involvement in the Planning Process. It has already been noted that non-profit organizations often have capabilities which would be particularly useful in connection with public planning for recreational oppor-

tunities, and that the most effective public involvement in this planning begins at its earliest stages. To facilitate this involvement, the task force recommends that:

> All public agencies responsible for planning should seek out and use the technical expertise which is possessed by many non-profit organizations. Qualified organizations should be retained as technical advisors on a fee basis.
>
> Public agencies engaged in the planning process should be required wherever possible to work closely with a public working group, not only to benefit from the technical expertise of its members but also to assure that its plans are responsive to public needs.
>
> The non-profit organizations and other members of the public who serve as technical advisors or in working groups should participate in the actual preparation of plans. Comments on or reactions to plans already prepared by public agencies are often insufficient to secure the full benefits of involvement on the part of the general public.

(A later recommendation of this report concerns the establishment of a directory of capabilities of non-profit organizations so that public planners and others in public agencies will be adequately informed of these capabilities.) The task force believes that these recommendations with respect to planning should be applied to all recreation management agencies, including the Corps of Engineers, the Soil Conservation Service, the Environmental Protection Agency and any other federal agency which considers recreation as part of its planning process.

2. Increased Role in Interpretative Education. The Environmental Education Act of 1970 charges the Department of Health, Education and Welfare with the responsibility for implementing the educational purposes of the Act. The task force understands that the funds which have been provided for this purpose have annually been less than the authorized level. For the four fiscal years 1975 through 1978 the percentage of authorized funds actually appropriated ranged from a low of 23% to a high of 38%. The task force believes that the purposes of the Act would be better implemented if other federal departments and agencies were given a share of the responsibility for implementation. The task force therefore recommends that appropriate legislation or interagency agreements be adopted to this end so that departments such as Interior and Agriculture are also given responsibility under the Act. The task force further recommends that all responsible land management agencies be given authority for such implementation in connection with programs which, although re-

lated to the land under their management, are conducted elsewhere. Further, appropriations under the Act should be increased to their authorized limit. Finally, all agencies charged with responsibility for implementing the Act should be strongly encouraged to utilize non-profit organizations in fulfilling their responsibilities, whether on site or off site, and appropriate regulations should be formulated to this end.

3. Assistance for Information Dissemination and Skills Training. The task force recommends that all land management agencies be authorized to assist and participate in programs both on and off of their lands which further the safety and enjoyment of the user public, and which diminish the physical impact of users on public resources. In this connection, the agencies should be required to utilize non-profit organizations to the greatest extent possible, and should be authorized to reimburse such organizations for the cost which they incur in providing authorized services. To the extent that authority is presently lacking to permit this, appropriate regulations should be formulated.

Among other programs which could be supported in this area, the task force recommends that information centers should be established in urban centers under the management of non-profit organizations to disseminate information about a broad spectrum of outdoor recreational opportunities, both on and off of public lands, including federal, state and local.

4. Participation in Programs to Encourage and Facilitate Use by Specific Target Population. In this area the task force has identified four distinct roles for non-profit organizations. The organizations can provide detailed information to target populations concerning the opportunities available to them, and they can participate in appropriate planning processes relating to these opportunities. Both of these roles have been discussed above in a more general context. In the present context, the task force further recommends that HCRS coordinate a more active information program for special target populations, and that non-profit organizations be utilized to the maximum extent possible in this program. The location of many non-profit organizations in urban settings, accessable to many of these target populations, makes the organizations particularly suitable in this connection.

The third role which was identified by the task force for non-profit organizations in this area relates to transportation of target populations from urban areas where they generally reside to the more remote areas where outdoor recreational opportunities exist. This role for non-profit organizations may have two aspects, a planning function and an implementation function. As to the planning function, what has been said above with respect to planning is fully relevant here. Further with respect to planning, the task force recommends that not only should recreational planning take into account transportation requirements, but in addition transportation planning should take into account recreational opportunities. The Department of Transportation should require the consideration of recreational opportunities in all urban and regional transportation studies in which it participates, and should provide for participation in such studies by non-profit organizations. Further, the task force recommends that the Urban Mass Transportation Technical Studies Grants program be modified so that non-profit organizations are eligible grant recipients. With respect to transportation implementation, the task force is generally of the view that the majority of non-profit organizations are not suited to the provision of actual transportation facilities. However, the task force is aware that the Urban Mass Transportation Act of 1964 provides for grants to private non-profit organizations to assist them to provide transportation services for the elderly and handicapped, and consideration could be given to expanding this program for the provision of transportation for the public generally to areas providing outdoor recreation opportunities.

The fourth role identified by the task force for non-profit organizations in this area relates to the direct provision of recreational opportunities for children through organized camping. Churches, YMCAs, Boy Scouts, Girl Scouts, the Salvation Army and other non-profit organizations presently provide a wide range of camping opportunities, many of them specifically for urban children, minority groups, handicapped persons, the economically deprived and others for whom such opportunities would not otherwise be available. These opportunities involve substantial use of public lands; in some cases the actual camping facilities are located on public lands under permit, and in many cases public lands are used for hiking trips and other camping experiences. The task force believes that these opportunities are extremely valuable and should be strongly encouraged. Permits for use of public lands by organized camps should be readily available, and camps run by non-profit organizations should be encouraged to make use of facilities on public lands which may originally have been constructed for such programs as CCC and YCC when these facilities are no longer required for their original purpose.

5. Encouragement of Greater State and Local Use of Non-Profit Organizations. The task force believes that there is an enormous but largely unrealized role for non-profit organizations in providing recreational opportunities at the state and local level. While much of the initiative for greater non-profit involvement at these levels must come from the state and local governments them-

selves, the task force believes that there are some federal actions which could be helpful in this regard. These resolve primarily around the Statewide Comprehensive Outdoor Recreational Plans (SCORP).

First, in connection with the preparation of SCORPs, federal funds are available and there are HCRS guidelines governing the process by which the plans are prepared. The task force recommends that these guidelines be amended to emphasize that the planning process involve meaningful participation of non-profit organizations. In particular, Part 630.12D of the HCRS Manual should be amended to strengthen the requirement for this involvement and to set forth more specifically a process for it to arrive. This report has earlier discussed the value of this participation and the general means for implementing it at the federal level. The same considerations are applicable at the state level, and federal regulations would be extremely useful in bringing it about.

Second, SCORPs could and should include an inventory of non-profit recreational activities associated with state lands, as well as an assessment of the potential for increased future activity. The SCORPs should then set forth action plans for obtaining greater participation by non-profit organizations. The HCRS guidelines concerning the content of SCORPs should specify these elements.

6. Greater Participation in CETA Programs. CETA performs a dual function. First, and most importantly, it trains individuals by providing them with marketable employment skills. Second, by providing funds for the employment of the individuals being trained, it increases the effectiveness of the employing organization. Funding under CETA is available both to public agencies and non-profit organizations. However, it is the experience of many non-profit organizations that the availability of funds for non-profit organizations varies enormously from place to place. Thus, while in many cases non-profit organizations provide better training for CETA employees than the public agencies, it may be difficult or impossible in certain areas for non-profit organizations to obtain CETA funds. Accordingly, the task force recommends that the present Department of Labor guidelines for the disbursement of CETA funds (which provide that two-thirds should go to the public sector and one-third to the non-profit sector) be reviewed with a view to increasing the portion of these funds available to non-profit organizations, and further that these guidelines be evenly applied in all areas so that non-profit organizations are given more predictable access to the funds.

Further, present CETA regulations prohibit the renewal of particular programs, however meritorious. The task force recommends that these regulations be revised so that the option of renewal of a program is available where it proves particularly successful in achieving training goals. Since the task force believes that non-profit organizations have often proven quite effective in providing such training, the effect of such a change will be to make greater CETA funding available to non-profit organizations.

Further, the task force recommends that CETA regulations be revised to permit a larger overhead allocation in the case of smaller programs. The task force has been informed that in these smaller programs training and counselling functions are often curtailed or eliminated so that the goals of the Act are not met. Therefore, the present ten percent limit should be increased to fifteen percent for individual programs of less than $100,000.

Finally, the task force recommends that CETA programs make greater use of the techniques outlined in case study eight in Appendix C. That is, one non-profit organization can be assigned responsibility for a relatively short training program as well as for on going counselling responsibilities, with the trained employees then being placed in other participating non-profit organizations where their skills, experience and confidence can be further developed.

D. General Recommendations

1. Information Programs. The task force believes that a critical component in any effort to achieve greater use of non-profit organizations to provide recreational opportunities is the development of an educational program so that agency managers and the general public will be aware of the capabilities of non-profit organizations, and the organizations themselves will be aware of the opportunities available to them to provide service. To this end, the task force strongly recommends that the following steps be taken:

(a) Compilation of an Inventory of Non-Profit Capabilities. HCRS should be responsible for the compilation and maintenance of a comprehensive directory of non-profit organizations providing recreational opportunities, which should be prepared with the assistance of the non-profit community. This directory should describe with some detail the capabilities of the listed organizations and should be regularly updated. The directory should then be included in a manual which is furnished to federal, state and local agencies involved with recreational activities.

(b) Conduct of Information Programs for Public Managers. In order to assure that public managers are continuously aware of the opportunities available to them to use non-profit organizations, HCRS should conduct, on a regular basis, a series of active programs including interagency conferences, joint meetings among non-profit organizations and public managers, demonstration programs and field studies encouraging the transfer of successful programs to new areas. These programs should involve all levels of federal, state and local agencies as well as non-profit organizations.

(c) Public Information Programs. HCRS and all federal, state and local agencies involved in recreational activities should utilize their public information techniques to bring to the attention of the general public the opportunities for recreation afforded by non-profit organizations, both in association with public lands and more generally. Increased public awareness of the value of the contribution of non-profit organizations and greater demand for the programs which they can provide will be significant factors in achieving greater non-profit participation.

(d) Education of Non-Profit Organizations. At the same time that public agencies are being informed about the capabilities of non-profit organizations, the organizations themselves should receive greater information about available opportunities to participate in public recreational programs. To this end, HCRS should compile and continuously maintain a catalog of public recreational programs in which non-profit organizations could participate. This catalog should be made widely available to non-profit organizations as well as the public generally.

2. Financial Reimbursement. As stated earlier, the task force concluded that financial assistance to non-profit organizations is appropriate when it is in return for specific services rendered, when the services are judged to be valuable and cost efficient. It has also been noted, however, that this reimbursement should not include payment for the freely provided services of volunteers. To facilitate this reimbursement, the task force recommends that all relevant statutes and regulations be reviewed and modified where necessary to ensure that public managers are not precluded from providing this reimbursement. In addition, the task force recommends the formulation of affirmative guidelines to encourage public managers to reimburse non-profit organizations in appropriate cases, and to provide guidance to assist public managers to determine when reimbursement is appropriate. The task force further recommends that reimbursement should not be limited to on site activities carried out by non-profit organizations, but in appropriate cases

should be extended to off site activities as well.

3. On-going Evaluation. Finally, since implementation of the task force's recommendations will result in a substantially increased involvement of non-profit organizations in public recreational programs, it is appropriate that this involvement be monitored and evaluated over a period of several years. Accordingly, the task force recommends that HCRS and all public agencies utilizing non-profit organizations conduct a continuing evaluation, with the results being coordinated by HCRS to determine whether (1) the basic premise of the task force, as well as its specific recommendations, are appropriate, and (2) whether as a result the general public is furnished with significantly greater recreational opportunities. The task force further recommends that the Secretary of the Interior direct HCRS to submit a written evaluation to the Secretary in 1981, together with such further recommendations as may then be appropriate.

E. Alternatives for Future Consideration

The task force considered, but has for the present decided not to recommend, some more far-reaching proposals to enhance the role of non-profit organizations in providing recreational opportunities. These proposals are listed in Appendix D.

VI. Conclusion

The task force strongly affirms the vital role of non-profit organizations in providing recreational opportunities. Non-profit organizations provide the advantages of substantial public involvement, cost effectiveness, flexibility and diversity. The task force believes that these advantages are available at minimum public cost and can be enhanced if the following recommendations are adopted:

(a) Establish, at a high federal level, a policy favoring the provision of recreational programs for the public by non-profit organizations;

(b) Collect and disseminate, both to public managers and the general public, information about the capabilities of non-profit organizations to provide recreational opportunities, and make available to non-profit organizations information as to the opportunities for participation available to non-profit organizations information as to the opportunities for participation available to them;

(c) Assure that federal agency regulations and other procedures facilitate the use of non-profit organizations; and

(d) Reimburse non-profit organizations for services rendered by them in providing recreational opportunities.

In order to implement these broad recommendations, the task force has made a number of specific recommendations in the preceding section of this report.

The task force does not believe that substantial general public financial assistance should be necessary and that in fact no funds need be provided to non-profit organizations except in return for value received. The opportunity to provide services, coupled with reimbursement for these services, will result in better and less costly public recreational opportunities and assure the health of the servicing non-profit organizations.

The task force was charged with considering the role of non-profit organizations in providing outdoor recreational activities on or related to undeveloped public lands. While this narrow and perhaps arbitrary focus proved helpful to the task force since it limited the range of programs with which the task force had to deal in a relatively short time, in the end the task force believes that its recommendations have broad applicability to the role of non-profit organizations in providing recreational opportunities of whatever kind, in any location. (The task force believes, however, that studies of the role of non-profit organizations in providing other kinds of recreational opportunities would produce beneficial results and should be pursued.)

The members of the task force consisted of both representatives of non-profit organizations and representatives from a variety of federal agencies. In working together, the members developed greater mutual respect and understanding, and it is the consensus of all of the members that the process of working together to produce this report was valuable in itself. The task force hopes that the report will prove equally as valuable in increasing outdoor recreational opportunities to the American public.

Respectfully submitted,

Andrew L. Nichols, Chairman
for the Task Force

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